NOTE

This Microfiche meets the quality requirements of the American National Standard for Microfiche of Documents (ANSI PH5.9-1975). However, because of imperfections in the document from which it was made, it contains images that are illegible or difficult to read. The source document for this microfiche is the best copy that could be obtained prior to filming.

Congressional Information Service, Inc
Washington, D.C.

CIS

CARIBBEAN BASIN INITIATIVE

HEARINGS

BEFORE THE

COMMITTEE ON FOREIGN RELATIONS
UNITED STATES SENATE

NINETY-SEVENTH CONGRESS

SECOND SESSION

ON

S. 2237

A BILL TO PROMOTE ECONOMIC REVITALIZATION AND FACILITATE EXPANSION OF ECONOMIC OPPORTUNITY IN THE CARIBBEAN BASIN REGION

MARCH 25 AND 31, 1982

Printed for the use of the Committee on Foreign Relations

U.S. GOVERNMENT PRINTING OFFICE
97-910 O WASHINGTON : 1982

S381-54

COMMITTEE ON FOREIGN RELATIONS

CHARLES H. PERCY, Illinois, *Chairman*

HOWARD H. BAKER, Jr., Tennessee
JESSE HELMS, North Carolina
S. I. HAYAKAWA, California
RICHARD G. LUGAR, Indiana
CHARLES McC. MATHIAS, Jr., Maryland
NANCY L. KASSEBAUM, Kansas
RUDY BOSCHWITZ, Minnesota
LARRY PRESSLER, South Dakota

CLAIBORNE PELL, Rhode Island
JOSEPH R. BIDEN, Jr., Delaware
JOHN GLENN, Ohio
PAUL S. SARBANES, Maryland
EDWARD ZORINSKY, Nebraska
PAUL E. TSONGAS, Massachusetts
ALAN CRANSTON, California
CHRISTOPHER J. DODD, Connecticut

Edward G. Sanders, *Staff Director*
Geryld B. Christianson, *Minority Staff Director*

CONTENTS

Page

Hearing days:
- March 25, 1982 ... 1
- March 31, 1982 ... 149

Statement of—
- Brock, Hon. William E., Ambassador, U.S. Trade Representative, accompanied by Hon. Marc Leland, Assistant Secretary for International Affairs, Department of the Treasury; Hon. Raymond J. Waldmann, Assistant Secretary for International Economic Policy, Department of Commerce; and Hon. Leo V. Mayer, Associate Administrator, Foreign Agricultural Service ... 32
- Cline, Dr. William R., Senior Fellow, Institute for International Economics, Washington, D.C. ... 202
- Corrada, Hon. Baltasar, Resident Commissioner of Puerto Rico ... 111
- de Lugo, Hon. Ron, Delegate from the Virgin Islands ... 132
- Fishlow, Prof. Albert, director, Council on International and Area Studies, Yale University, New Haven, Conn ... 197
- Luis, Hon. Juan, Governor, U.S. Virgin Islands ... 121
- McPherson, Hon. M. Peter, Administrator, Agency for International Development ... 48
- Monroe, Archie L., president, Esso Inter-America, on behalf of the Council of the Americas and Caribbean/Central America Action, Coral Gables, Fla ... 150
- Newfarmer, Dr. Richard S., Overseas Development Council, Washington, D.C ... 210
- Oswald, Dr. Rudolph A., director, Department of Economic Research, AFL–CIO, accompanied by Stephen Koplan, legislative representative, AFL–CIO ... 176
- Parry, Charles W., president, Aluminum Co. of America, Pittsburgh, Pa ... 156
- Romero-Barcelo, Hon. Carlos, Governor of Puerto Rico ... 93
- Stoessel, Hon. Walter J., Deputy Secretary of State ... 44
- Urban, Stanley J., Jr., president, Haitian-American Chamber of Commerce, Port-au-Prince, Haiti ... 154
- Weintraub, Prof. Sidney, Lyndon B. Johnson School of Public Affairs, University of Texas at Austin, Austin, Tex ... 188

Insertions for the record:
- Text of S. 2237 ... 2
- Prepared statement of Ambassador William E. Brock ... 34
- Prepared statement of Hon. Marc E. Leland ... 36
- Prepared statement of Hon. Raymond J. Waldmann ... 40
- Prepared statement of Hon. Leo V. Mayer ... 42
- Prepared statement of Hon. Walter J. Stoessel ... 45
- Biographical sketch of M. Peter McPherson ... 48
- Prepared statement of Hon. M. Peter McPherson ... 49
- Letter to Senator Pell from M. Peter McPherson, regarding the Caribbean Action Plan and the Caribbean Trust Fund ... 65
- Decree rule begun in Guatemala—leaders of coup drop mention of election goal—reprinted from the Washington Post, March 25, 1982 ... 79
- A "Basin" Marshall Plan—reprinted from the Washington Post, March 3, 1982 ... 81
- Venezuelan criticism—leader attacks U.S. policy—reprinted from the Washington Post, March 24, 1982 ... 82
- "No comment" on report of United States-Cuba contacts—U.S. cautious on Guatemalan coup—reprinted from the Washington Post, March 25, 1982 ... 84

Insertions for the record—Continued

Page
U.S. seeking right to use air bases in the Caribbean—two countries approached—reprinted from the New York Times, March 4, 1982 85
Resolution of the Puerto Rican House of Representatives 96
Prepared statement of Resident Commissioner Baltasar Corrada 115
Prepared statement of Hon. Juan Luis 124
Statement of Senator Bent Lawaetz, U.S. Virgin Islands 130
Prepared statement of Hon. Ron de Lugo 134
AID's responses to additional questions submitted for the record 145
Prepared statement of Archie L. Monroe 152
Prepared statement of Dr. Rudolph A. Oswald 179
Statement by the AFL–CIO executive council on international trade and investment 181
Prepared statement of Prof. Sidney Weintraub 191
Prepared statement of Prof. Albert Fishlow 199
Biographical sketch of William R. Cline 202
Prepared statement of William R. Cline 204
Biographical sketch of Richard E. Feinberg and Richard S. Newfarmer 210
Prepared statement of Richard S. Newfarmer and Richard E. Feinberg 212

Appendix:

Prepared statement of TransAfrica, Washington, D.C 233
Prepared statement of Gulf+Western Industries, Inc., Washington, D.C 236
Prepared statement of the National Association of Beverage Importers, Inc., Washington, D.C 239
Prepared statement of the Interreligious Taskforce on U.S. Food Policy, Washington, D.C 241
Prepared statement of ACCION International, Cambridge, Mass 248
Prepared statement of the American Apparel Manufacturers Association, Arlington, Va 249
Prepared statement of Oswald A. Roels, Ph. D., president of Worldwide Protein, Inc., Corpus Christi, Tex 251
Prepared statement of Leather Products Coalition 255
Prepared statement of Robert B. Washington, Jr., on behalf of the Government of Antigua and Barbuda 257

CARIBBEAN BASIN INITIATIVE

THURSDAY, MARCH 25, 1982

United States Senate,
Committee on Foreign Relations,
Washington, D.C.

The committee met, pursuant to notice, at 9:42 a.m., in room 4221, Dirksen Senate Office Building, Hon. Charles H. Percy (chairman of the committee) presiding.

Present: Senators Percy, Mathias, Kassebaum, Pell, Biden, Glenn, Zorinsky, Tsongas, and Dodd.

The Chairman. I would like to cordially welcome the U.S. Trade Representative, Ambassador William Brock, our former colleague, Deputy Secretary of State, Walter Stoessel, and the Agency for International Development Administrator, Peter McPherson.

They are here with the Assistant Secretary of the Treasury for International Affairs, Marc Leland; Assistant Secretary of Commerce for International Economic Policy, Raymond Waldmann; and Deputy Administrator of the Foreign Agricultural Service, Dr. Leo Mayer.

I believe that all of them are here with you. I believe that the Governor of Puerto Rico, the Honorable Carlos Romero-Barcelô, and the Governor of the U.S. Virgin Islands, the Honorable Juan Luis along with their delegates to the House of Representatives will be joining us later.

We meet today to hear testimony from the administration on the President's Caribbean Basin Initiative [CBI]. This is the first day of 2 days of hearings the committee will be holding on this legislation.

[Text of S. 2237 follows:]

97TH CONGRESS
2D SESSION

S. 2237

To promote economic revitalization and facilitate expansion of economic opportunity in the Caribbean Basin region.

IN THE SENATE OF THE UNITED STATES

MARCH 18 (legislative day, FEBRUARY 22), 1982

Mr. DOLE (for himself, Mr. PERCY, and Mr. DANFORTH) (by request) introduced the following bill; which was read twice and referred to the Committee on Finance

---

A BILL

To promote economic revitalization and facilitate expansion of economic opportunity in the Caribbean Basin region.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the "Caribbean Basin Economic Recovery Act".

TITLE I—DUTY-FREE TREATMENT

SEC. 101. AUTHORITY TO GRANT DUTY-FREE TREATMENT.

The President may proclaim duty-free treatment for all eligible articles from any beneficiary country in accordance with the provisions in this title.

SEC. 102. BENEFICIARY COUNTRY.

(a)(1) For purposes of this Act, the term "beneficiary country" means any country in subsection (b) with respect to which there is in effect a proclamation by the President designating such country as a beneficiary country for purposes of this title. Before the President designates any country as a beneficiary country for purposes of this Act, he shall notify the House of Representatives and the Senate of his intention to make such designation, together with the considerations entering into such decision.

(2) If the President has designated any country as a beneficiary country for purposes of this Act, he shall not terminate such designation (either by issuing a proclamation for that purpose or by issuing a proclamation which has the effect of terminating such designation) unless, at least sixty days before such termination, he has notified the House of Representatives and the Senate and has notified such country of his intention to terminate such designation, together with the considerations entering into such decision.

(3) For purposes of this title, the term "country" means any foreign country, or any overseas dependent territory or possession of a foreign country.

(b) In designating countries as "beneficiary countries" under this Act, the President shall consider only the following countries and territories or successor political entities:

Anguilla
Antigua and Barbuda
Bahamas, The
Barbados
Belize
Costa Rica
Cuba
Dominica
Dominican Republic
El Salvador
Grenada
Guatemala
Guyana
Haiti
Honduras
Jamaica
Nicaragua
Panama
Saint Lucia
Saint Vincent and the Grenadines
Surinam
Trinidad and Tobago
Cayman Islands
Montserrat
Netherlands Antilles
Saint Christopher-Nevis
Turks and Caicos Islands
Virgin Islands, British

In addition, the President shall not designate any country a beneficiary country under this Act—

(1) if such country is a Communist country;

(2) if such country—

(A) has nationalized, expropriated, or otherwise seized ownership or control of property owned by a United States citizen or by a corporation, partnership, or association which is 50 per centum or more beneficially owned by United States citizens,

(B) has taken steps to repudiate or nullify an existing contract or agreement with a United States citizen or a corporation, partnership, or association which is 50 per centum or more beneficially owned by United States citizens, the effect of which is to nationalize, expropriate, or otherwise seize ownership or control of property so owned, or

(C) has imposed or enforced taxes or other exactions, restrictive maintenance or operational conditions, or other measures with respect to property so owned, the effect of which is to nationalize, expropriate, or otherwise seize ownership or control of such property,

unless—

(D) the President determines that—

(i) prompt, adequate, and effective compensation has been or is being made to such citizen, corporation, partnership, or association,

(ii) good-faith negotiations to provide prompt, adequate, and effective compensation under the applicable provisions of international law are in progress, or such country is otherwise taking steps to discharge its obligations under international law with respect to such citizen, corporation, partnership, or association, or

(iii) a dispute involving such citizen, corporation, partnership, or association over compensation for such a seizure has been submitted to arbitration under the provisions of the Convention for the Settlement of Investment Disputes, or in another mutually agreed upon forum, and

promptly furnishes a copy of such determination to the Senate and House of Representatives;

(3) if such country fails to act in good faith in recognizing as binding or in enforcing arbitral awards in favor of United States citizens or a corporation, partnership or association which is 50 per centum or more beneficially owned by United States citizens, which have been made by arbitrators appointed for each case or by permanent arbitral bodies to which the parties involved have submitted their dispute; or

(4) if such country affords preferential treatment to the products of a developed country, other than the United States, which has, or is likely to have, a significant adverse effect on United States commerce, unless the President has received assurances satisfactory to him that such preferential treatment will be eliminated or that action will be taken to assure that there will be no such significant adverse effect, and he reports those assurances to the Congress.

Paragraphs (1), (2), and (3) shall not prevent the designation of any country as a beneficiary country under this Act if the

President determines that such designation will be in the national economic or security interest of the United States and reports such determination to the Congress with his reasons therefor.

(c) In determining whether to designate any country a beneficiary country under this Act, the President shall take into account—

(1) an expression by such country of its desire to be so designated;

(2) the economic conditions in such country, the living standards of its inhabitants, and any other economic factors which he deems appropriate;

(3) the extent to which such country has assured the United States it will provide equitable and reasonable access to the markets and basic commodity resources of such country;

(4) the degree to which such country follows the accepted rules of international trade provided for under the General Agreement of Tariffs and Trade, as well as applicable trade agreements approved under section 2(a) of the Trade Agreements Act of 1979;

(5) the degree to which such country uses export subsidies or imposes export performance requirements or local content requirements which distort international trade;

(6) the degree to which the trade policies of such country as they relate to other beneficiary countries are contributing to the revitalization of the region;

(7) the degree to which such country is undertaking self-help measures to promote its own economic development; and

(8) the degree to which workers in such country are afforded reasonable workplace conditions and enjoy the right to organize and bargain collectively.

(d) General headnote 3(a) to the Tariff Schedules of the United States (19 U.S.C. 1202) (relating to products of insular possessions) is amended by adding at the end thereof the following paragraph:

"(iv) Subject to the provisions in section 103 of the Caribbean Basin Economic Recovery Act, articles which are imported from insular possessions of the United States shall receive duty-free treatment no less favorable than the treatment afforded such articles when they are imported from a beneficiary country under such Act.".

(e) The President shall, after complying with the requirements of subsection (a)(2), withdraw or suspend the designation of any country as a beneficiary country if, after such designation, he determines that as the result of changed circumstances such country would be barred from designation as a beneficiary country under subsection (b).

SEC. 103. ELIGIBLE ARTICLES.

(a) Unless otherwise excluded from eligibility by this title, the duty-free treatment provided under this title shall apply to any article if—

(1) that article is imported directly from a beneficiary country into the customs territory of the United States; and

(2) the sum of (A) the cost or value of the materials produced in a beneficiary country or two or more beneficiary countries, plus (B) the direct costs of processing operations performed in such beneficiary country or countries is not less than 25 per centum of the appraised value of such article at the time of its entry into the customs territory of the United States. For purposes of determining this percentage the term "beneficiary country" shall include the Commonwealth of Puerto Rico and the Virgin Islands of the United States.

The Secretary of the Treasury shall prescribe such regulations as may be necessary to carry out this subsection.

(b) The duty-free treatment provided under this title shall not apply to textile and apparel articles which are subject to textile agreements.

(c) For such period as there is in effect a proclamation issued by the President pursuant to the authority vested in him by section 22 of the Agricultural Adjustment Act, as amended (7 U.S.C. 624), to protect a price-support program for sugar beets and sugar cane, the importation and duty-free treatment of sugars, sirups, and molasses classified under items 155.20 and 155.30 of the Tariff Schedules of the United States shall be governed in the following manner:

(A)(1) For all beneficiary countries, except those subject to subparagraphs A(2) and B below, duty-free treatment shall be provided in the same manner as it is provided pursuant to title V of the Trade Act of 1974 (19 U.S.C. 2461 et seq.), at the time of enactment of this title: *Provided, however,* That the President upon the recommendation of the Secretary of Agriculutre, may suspend or adjust upward the value limitation provided for in section 504(c)(1) of the Trade Act of 1974 on the duty-free treatment afforded to beneficiary countries under this section if he finds that such adjustment will not interfere with the price support program for sugar beets and sugar cane and is appropriate in light of market conditions.

(2) As an alternative to subparagraph (A)(1), the President may, at the request of a beneficiary country not subject to subparagraph (B) and upon the recom-

mendation of the Secretary of Agriculture, elect to permit sugar, sirups, and molasses from that country to enter duty-free during a calendar year subject to quantitative limitations to be established by the President on the quantity of sugar, sirups, and molasses entered from that country.

(B) For the following countries whose exports of sugar, sirups, and molasses in 1981 were not eligible for duty-free treatment because of the operation of section 504(c) of the Trade Act of 1974, the quantity of sugar, sirups, and molasses which may enter the customs territory of the United States in any calendar year shall be limited to no more than the quantity specified below:

	Metric tons
Dominican Republic	780,000
Guatemala	210,000
Panama	160,000

Such sugar, sirups, and molasses shall be admitted free of duty, except as provided for in subparagraph (C).

(C) The President, upon the recommendation of the Secretary of Agriculture, may suspend or adjust upward the quantitative limitations imposed under subparagraphs A(2) and B if he determines such action will not interfere with the price-support program for sugar beets and sugar cane and is appropriate in light of market conditions. The President, upon the recommendation of the Secretary of Agriculture, may suspend the duty-free treatment for all or part of the quantity of sugar, sirups, and molasses permitted to be entered by subparagraphs A(2) and B if such action is necessary to protect the price-support program for sugar beets and sugar cane.

(d)(1) The President may by proclamation suspend the duty-free treatment provided by this title with respect to any eligible article and may proclaim a duty rate for such article if such action is proclaimed pursuant to section 203 of the Trade Act of 1974 or section 232 of the Trade Expansion Act of 1962. Any proclamation issue pursuant to section 203 of the Trade Act of 1974 in effect when duty-free treatment pursuant to section 101 of this title is proclaimed shall remain in effect until modified or terminated.

(2) In any report by the International Trade Commission to the President under section 201(d)(1) of the Trade Act of 1974 regarding any article for which duty-free treatment has been proclaimed by the President pursuant to this title, the Commission shall state whether and to what extent its findings and recommendations apply to such article when imported from beneficiary countries. With respect to any article which is subject to import relief in effect at the time duty-free treatment is proclaimed pursuant to section 101 of this title, the President may reduce or terminate the application of such import relief to imports from beneficiary countries prior to its

otherwise scheduled date pursuant to the criteria and procedures of subsections (h) and (i) of section 203 of the Trade Act of 1974.

(3) For purposes of subsections (a) and (c) of section 203 of the Trade Act of 1974, as amended, the suspension of the duty-free treatment provided by this title shall be treated as an increase in duty.

(4) No proclamation which provides solely for a suspension referred to in paragraph (3) of this subsection with respect to any article shall be made under subsections (a) and (c) of section 203 of the Trade Act of 1974 unless the United States International Trade Commission, in addition to making an affirmative determination with respect to such article under section 201(b) of the Trade Act of 1974, determines in the course of its investigation under section 201(b) that the serious injury (or threat thereof) substantially caused by imports to the domestic industry producing a like or directly competitive article results from the duty-free treatment provided by this title.

(e)(1) If a petition is filed with the International Trade Commission pursuant to the provisions of section 201 of the Trade Act of 1974 regarding a perishable product and alleging injury from imports from beneficiary countries, then the petition may also be filed with the Secretary of Agriculture with a request that emergency relief be granted pursuant to paragraph (3) of this subsection with respect to such article.

(2) Within fourteen days after the filing of a petition under paragraph (1) of this subsection—

(A) if the Secretary of Agriculture has reason to believe that a perishable product from a beneficiary country is being imported into the United States in such increased quantities as to be a substantial cause of serious injury, or the threat thereof, to the domestic industry producing a perishable product like or directly competitive with the imported product and that emergency action is warranted, he shall advise the President and recommend that the President take emergency action; or

(B) the Secretary of Agriculture shall publish a notice of his determination not to recommend the imposition of emergency action and so advise the petitioner.

(3) Within seven days after the President receives a recommendation from the Secretary of Agriculture to take emergency action pursuant to subparagraph 2 of this subsection, he shall issue a proclamation withdrawing the duty-free treatment provided by this title or publish a notice of his determination not to take emergency action.

(4) The emergency action provided by subparagraph 3 of this subsection shall cease to apply (1) upon the proclama-

tion of import relief pursuant to section 202(a)(1) of the Trade Act of 1974, (2) on the day the President makes a determination pursuant to section 203(b)(2) not to impose import relief, (3) in the event of a report of the United States International Trade Commission containing a negative finding, on the day the Commission's report is submitted to the President, or (4) whenever the President determines that because of changed circumstances such relief is no longer warranted.

(5) For purposes of this subsection the term "perishable product" shall mean—

(A) fresh or chilled vegetables .provided for in the Tariff Schedule of the United States items 135.10 through 138.42;

(B) fresh mushrooms provided for in the Tariff Schedule of the United States item 144.10;

(C) fresh fruit provided for in the Tariff Schedule of the United States items 146.10, 146.20, 146.30, 146.50 through 146.62, 146.90, 146.91, 147.03 through 147.33, 147.50 through 149.21, and 149.50; and

(D) fresh cut flowers provided for in the Tariff Schedule of the United States items 192.17, 192.18, and 192.21.

(f) No proclamation issued pursuant to this title shall affect fees imposed pursuant to section 22 of the Agricultural Adjustment Act (7 U.S.C. 624).

SEC. 104. MEASURES FOR PUERTO RICO AND UNITED STATES INSULAR POSSESSIONS.

(a) Item 813.31 of schedule 8 of the Tariff Schedule of the United States (19 U.S.C. 1202) is amended by striking out "4 liters" and inserting in lieu thereof "5 liters", and by inserting after "United States,", "and not more than 4 liters of which shall have been produced elsewhere than in such insular possession,".

(b) If the sum of the amounts of taxes covered into the treasuries of Puerto Rico and the United States Virgin Islands pursuant to section 302 of this Act is reduced below the amount that would have been covered over if the imported rum had been produced in Puerto Rico or the United States Virgin Islands, then the President shall consider compensatory measures and, in this regard, may withdraw the duty-free treatment on rum provided by this title. The President shall submit a report to the Congress on the measures he takes.

(c) Section 1112 of the Trade Agreements Act of 1979 (19 U.S.C. 2582) is repealed.

(d) No action pursuant to this title may affect any tariff duty imposed by the Legislature of Puerto Rico pursuant to section 319 of the Tariff Act of 1930 (19 U.S.C. 1319) on coffee imported into Puerto Rico.

(e) For purposes of chapter 1 of title II of the Trade Act of 1974, the term industry shall include producers located in the United States insular possessions.

SEC. 105. TIME LIMIT TO ACT.

No duty-free treatment under this Act shall remain in effect after the date which is twelve years after the date of the enactment of this Act.

TITLE II—EMERGENCY ECONOMIC ASSISTANCE

SEC. 201. EMERGENCY ECONOMIC ASSISTANCE.

There are authorized to be appropriated for the fiscal year 1982, in addition to funds otherwise available for such purposes, $350,000,000 to carry out the purposes of chapter 4 of part II of the Foreign Assistance Act of 1961, as amended, for countries in the Caribbean Basin (which shall include the states of Central America).

TITLE III—TAX PROVISIONS

SEC. 301. AMENDMENT OF INTERNAL REVENUE CODE OF 1954.

Except as otherwise expressly provided, whenever in this title an amendment or repeal is expressed in terms of an amendment to, or repeal of, a section or other provision, the reference shall be considered to be made to a section or other provision of the Internal Revenue Code of 1954.

SEC. 301. PAYMENT OF EXCISE TAXES COLLECTED ON RUM TO PUERTO RICO AND THE UNITED STATES VIRGIN ISLANDS.

(a) IN GENERAL.—Section 7652 is amended by inserting after subsection (b) the following new subsection:

"(c) SHIPMENTS OF RUM TO THE UNITED STATES.—

"(1) DISPOSITION OF EXCISE TAXES ON RUM.—All taxes collected under section 5001 on rum imported into the United States (less the estimated amount necessary for payment of refunds and drawbacks) shall be covered into the treasuries of Puerto Rico and the Virgin Islands: *Provided, however,* That the amount of such taxes covered over to Puerto Rico and the Virgin Islands under this subsection shall not exceed the taxes which would be covered over if the rum had been produced in Puerto Rico or the Virgin Islands and transported to the United States. The Secretary shall by regulation prescribe a formula for the division of such tax collections between Puerto Rico and the Virgin Islands and the timing and methods for covering over of such tax collections.

"(2) RUM.—The term 'rum' means alcoholic spirits classified under items 169.13 and 169.14 of the Tariff Schedules of the United States (19 U.S.C. 1202)."

SEC. 303. EXTENSION OF INVESTMENT TAX CREDIT FOR CARIBBEAN BASIN PROPERTY.

(a) CREDIT FOR CARIBBEAN BASIN PROPERTY.—Section 48(a)(2)(B) is amended by inserting immediately after subparagraph (xi) the following new subparagraph:

> "(xii) Caribbean Basin property (within the meaning of subsection (q)) which is placed in service after (the date of enactment) and before (5 years after the date of enactment).".

(b) DEFINITION OF CARIBBEAN BASIN PROPERTY.—Section 48 is amended by redesignating subsection (q) as subsection (r) and by inserting after subsection (p) the following new subsection:

"(q) CARIBBEAN BASIN PROPERTY DEFINED.—For purposes of this section—

> "(1) IN GENERAL.—The term 'Caribbean Basin property' means section 38 property (as defined in section 38(a)(1)), which is used predominantly in a qualifying country (as defined in paragraph (2)) or any two or more qualifying countries, other than property which has previously been used predominantly in a beneficiary country (as defined in section 102(a)(1) of the Caribbean Basin Economic Recovery Act).
>
> "(2) QUALIFYING COUNTRY.—The term 'qualifying country' means any beneficiary country (as defined

in section 102(a)(1) of the Caribbean Basin Economic Recovery Act), which is a party to a bilateral executive agreement with the United States providing for the exchange of information between the United States and the beneficiary country.

"(3) AUTHORITY TO CONCLUDE EXCHANGE OF INFORMATION AGREEMENTS.—The Secretary or his delegate is authorized to negotiate and conclude an agreement for the exchange of information with any beneficiary country (as defined in section 102(a)(1) of the Caribbean Basin Economic Recovery Act). An exchange of information agreement shall provide for the exchange of such information, not limited to information concerning nationals or residents of the United States or the beneficiary country, as may be necessary and appropriate to carry out and enforce the tax laws of the United States and the beneficiary country, including information which may otherwise be subject to nondisclosure provisions of the local law of the beneficiary country such as provisions respecting bank secrecy and bearer shares. The exchange of information agreement shall be terminable by either country on reasonable notice and shall provide that information received by either country will be disclosed only to persons or authorities (including courts and administrative bodies) involved in the assessment, collection, or determination of appeals in respect of taxes of the United States or the beneficiary country.".

(c) CARIBBEAN BASIN PROPERTY USED PREDOMINANTLY OUTSIDE UNITED STATES FOR PURPOSES OF ACCELERATED COST RECOVERY SYSTEM.—Section 168(f)(2)(D) is amended by inserting after the words "under subparagraph (B)" the words "other than clause (xii)".

(d) CREDIT MAY NOT BE USED BY FOREIGN CORPORATION.—Section 882(b) is amended by redesignating paragraph (4) as paragraph (5) and by inserting after paragraph (3) the following new paragraph:

"(4) INVESTMENT CREDIT NOT ALLOWED FOR CARIBBEAN BASIN PROPERTY.—Foreign corporations shall not be allowed the section 38 credit with respect to Caribbean Basin property (as defined in section 38(q)(1).".

SEC. 304. PASSTHROUGH OF CREDIT TO 5 PERCENT UNITED STATES SHAREHOLDER OF FOREIGN CORPORATION.

Section 46 is amended by inserting after subsection (h) the following new subsection:

"(i) SPECIAL RULES FOR FOREIGN CORPORATIONS INVESTING IN CARIBBEAN BASIN PROPERTY.—

"(1) In general.—A United States person who owns 5 percent or more in value of the outstanding stock of a foreign corporation shall be demed for purposes of section 38 to have made a qualified investment (within the meaning of subsection (c)) or qualified progress expenditures (within the meaning of subsection (d)) in an amount equal to the lesser of—

"(A) the shareholder's pro rata share of the foreign corportion's aggregate qualified investment in Caribbean Basin property (without regard to the taxable year, ending after (the date of enactment), in which such property was placed in service and without regard to adjustments to the basis of such property under section 1016(a)(2)), determined on the last day of the taxable year of the foreign corporation ending in or on the last day of the shareholder's taxable year, or

"(B) an amount equal to the excess of—

"(i) the shareholder's basis in the stock of the foreign corporation at the end of the shareholder's taxable year (without regard to adjustments to the basis of the shareholder's stock under section 551 or section 961, or as a consequence of a consent dividend under section 565), over "(ii) the shareholder's basis in the stock of the foreign corporation on (the date of enactment),

reduced by the amount of qualified investment of the foreign corporation with respect to which the shareholder has previously used an investment credit under section 38.

"(2) REGULATIONS.—The Secretary shall prescribe such regulations as may be necessary or appropriate to carry out the purposes of this subsection, including regulations providing rules for the application of section 47 (relating to certain dispositions, etc., of section 38 property) and section 46(c)(8) (relating to at risk limitations) with respect to the shareholder's qualified investment under this subsection in a manner similar to their application to shareholders of an electing small business corporation (within the meaning of section 1371).".

SEC. 305. RECAPTURE OF CREDIT.

Section 47(a) is amended by inserting after paragraph (8) the following new paragraph:

"(9) SPECIAL RULES FOR CARIBBEAN BASIN PROPERTY.—If during any taxable year any Caribbean Basin property (as defined in section 48(q)) taken into account in determining qualified investment under section 46(c) or section 46(d) is used predominantly outside a qualifying country (as defined in section 48(q)(2)) or two or more qualifying countries, or the United States, such property shall cease to be Caribbean Basin property in such taxable year. Property shall not cease to be Caribbean Basin property because a qualifying country in which the property is used ceases to be a qualifying country.".

SEC. 306. EXTENSION OF INVESTMENT TAX CREDIT AND ACCELERATED COST RECOVERY TO PROPERTY OWNED OR USED BY CERTAIN CORPORATIONS AND CITIZENS ENGAGED IN TRADE OR BUSINESS IN PUERTO RICO OR OTHER POSSESSIONS.

(a) EXTENSION OF INVESTMENT TAX CREDIT AND ACCELERATED COST RECOVERY.—Section 48(a)(2)(B)(vii) is amended to read as follows:

"(vii) any property which is owned by a domestic corporation or by a United States citizen and which is used predominantly in a possession of the United States by such a corporation or a citizen, or by a corporation created or organized in, or under the law of, a possession of the United States;".

(b) PASSTHROUGH OF INVESTMENT TAX CREDIT AND ACCELERATED COST RECOVERY DEDUCTIONS TO CERTAIN SHAREHOLDERS OF DOMESTIC CORPORATIONS ELECTING UNDER SECTION 936 OR ENTITLED TO BENEFITS OF SECTION 934(b).—

(1) SECTION 936 CORPORATIONS.—Section 936 is amended by inserting after subsection (g) the following new subsection (h):

"(h) PASSTHROUGH OF CERTAIN TAX ATTRIBUTES.—

"(1) IN GENERAL.—If a corporation with respect to which an election provided in subsection (a) is in effect for the taxable year (the 'electing corporation') would be a member of an affiliated group under the rules of section 1504(a) (without regard to section 1504(b)(4)), then a corporation which would be a member of such affiliated group and which owns common stock of the electing corporation shall be allowed as a credit against the tax imposed by this chapter its pro rata share of the amount determined under section 38 and as a deduction its pro rata share of 50 percent of the amount determined under section 168 with respect to property owned by the electing corporation. A corporation with respect to which an election provided in subsection (a) is in effect for the taxable year shall not be allowed a credit under section 38 or a deduction under section 168 if one or more of the shareholders of such corporation qualify for the benefits of this paragraph.

"(2) REGULATIONS.—The Secretary shall prescribe such regulations as may be necessary or appropriate to carry out the purposes of this subsection, including but not limited to regulations providing rules for the application of section 46(c)(8) (relating to at risk limitations on qualifying investment in section 38 property), section 47 (relating to certain dispositions, etc., of section 38 property), section 465 (relating to at risk limitations on deductions), section 1245 (relating to certain dispositions of depreciable property) and section 1250 (relating to certain dispositions of depreciable realty)."

(2) SECTION 934(b) CORPORATIONS.—Section 934 is amended by inserting after subsection (d) the following new subsection (e):

"(e) PASSTHROUGH OF CERTAIN TAX ATTRIBUTES TO CERTAIN DOMESTIC CORPORATIONS.—

"(1) IN GENERAL.—If a domestic 934(b) corporation would be a member of an affiliated group under the rules of section 1504(a) (without regard to section 1504(b)(8)), then a corporation which would be a member of such affiliated group and which owns common stock of the domestic 934(b) corporation shall be allowed as a credit against the tax imposed by this chapter its pro rata share of the amount determined under section 38 and as a deduction its pro rata share of 50 percent of the amount determined under section 168 with respect to property owned by the domestic 934(b) corporation. A corporation which is a domestic 934(b) corporation for the taxable year shall not be allowed a credit under section 38 or a deduction under section 168 if one or more of the shareholders of such corporation qualify for the benefits of this paragraph.

"(2) DOMESTIC 934(b) CORPORATION.—The term 'domestic 934(b) corporation' means a domestic corporation satisfying the conditions of paragraph (1) and paragraph (2) of section 934(b) for the taxable year.

"(3) REGULATIONS.—The Secretary shall prescribe such regulations as may be necessary or appropriate to carry out the purposes of this subsection, including but not limited to regulations providing rules for the application of section 46(c)(8) (relating to at risk limitations on qualifying investment in section 38 property), section 465 (relating to at risk limitations on deductions), section 1245 (relating to certain dispositions of depreciable property) and section 1250 (relating to certain dispositions of depreciable realty).".

(3) TECHNICAL AMENDMENTS.—Section 1504(b) is amended by inserting after paragraph (7) the following new paragraph:

"(8) A domestic 934(b) corporation, as defined in section 934(e)(2).".

SEC. 307. EXCEPTIONS TO DEFINITION OF QUALIFIED LEASED PROPERTY.

Section 168(f)(8)(D) is amended by striking out "(other than a qualified rehabilitated building within the meaning of section 48(g)(1))", by striking out the period after the words "under section 103(a)" and inserting the word ", and", and by inserting immediately thereafter the following new clause:

"(iv) which is not—

"(I) a qualified rehabilitated building within the meaning of section 48(g)(1),

"(II) Caribbean Basin property within the meaning of section 48(q)(1), or

"(III) property which is owned by a domestic corporation which has an election in effect under section 936 or a domestic 934(b) corporation, as defined in section 934(e)(2), or which is used by such a corporation or by a United States citizen entitled to the benefits of section 931, 932, 933, or 934(c), or by a corporation created or organized in, or under the law of, a possession of the United States.".

○

The **CHAIRMAN**. Next Wednesday we will be hearing from members of the private sector who have experience in the region and from economists who can evaluate the program's impact on the Caribbean region and on the United States.

We in the Congress have warmly welcomed this package. The Caribbean Basin is a region that needs our concentrated attention. For a number of reasons in recent years, we have not been very attentive to the changes that have been taking place in Central America and in the Spanish-speaking Caribbean countries.

With the exception perhaps of Jamaica, which is close, we have not familiarized ourselves with the special problems of the English-speaking Caribbean. When these countries of the Caribbean were subjects of Great Britain, we did not need to know and understand them as well as we do now, when they are independent states and part of our immediate neighborhood.

When I say we, I say "We" collectively as a committee. Individually many of us have been deeply interested in the region and have been visiting it for well over a quarter of a century and were familiar with many of the countries.

But we have not formally, as a committee, taken a comprehensive look and study of this particular region. Now, we are looking more closely at the Caribbean region. We see serious problems of economic stagnation, of overbureaucratization, population growth rates, severe under and unemployment, lack of infrastructure and other problems of underdevelopment.

Simply stated, the peoples of the region are increasingly starved for opportunities to improve their lives. Too frequently their frustrations are channeled into political instability. The United States needs policies that will deal with complex problems of political instability that grow out of lack of economic development.

The present circumstances in the Caribbean Basin make it impossible to postpone confronting those policy decisions any longer.

Let no one think that the Caribbean Basin is not a region of profound interest and concern to the United States. It is economically important to us. A good share of our trade, especially raw materials and petroleum, passes through the Caribbean. It is militarily important to us. It guards the access to the Panama Canal and to the Atlantic Ocean. If hostile bases were established in the region, we would have to engage in costly defense preparations quite different from what we now have. The Caribbean Basin is also politically important to the United States. The countries of the region are neighbors. It is important to us and to them that we all pursue positive, mutually cooperative, and beneficial relations in the region. No one gains from hostilities.

This package of legislation aims to facilitate trade and investment and aid flows to stimulate economic development in the Caribbean region. I have no doubt that some portions of it are controversial. Already people have raised the question of losses of jobs in the United States that might result in the trade and investment provisions.

Others have questioned whether the aid requests are large enough to have a meaningful impact on the seriously troubled economies of the region. Others ask whether the region has the marketing and transportation infrastructure to take advantage of the CBI provisions.

These are important questions that will need responses. The CBI package does not promise a magical, overnight transformation of Caribbean economies. The President recognized this in his speech before the OAS, when he observed that many of the benefits of the CBI will come from opportunities in areas not yet undertaken for the countries of the region.

But the CBI is a beginning. I firmly believe that we must begin to deal constructively and for the long term with the problems of this area. I hope others will join me in giving broad support to this initiative.

I would like to say to our witnesses, I am extremely sorry that we were delayed a few minutes in getting underway, but Senator Baker and I were with the Secretary of State this morning at breakfast talking about some of these problems in the Caribbean area.

I cannot think, as we said to him, of a greater initiative that this country could have provided leadership for, than this. It is a positive program. I know that some concerns have been expressed about the impact on jobs in this country. However, I would also like to say, in the leadership of the Chicago Association of Commerce and Industry, manufacturers and business people in the Chicago area are ready, willing, and able to work with AID to see that whatever assistance is provided is backed up with investment. They will promote the investment of American companies of the greater Chicago region.

This is the first initiative of this kind, I think, that we have. And I was proud that Chicago would take the lead in saying that the CBI is in the national interest and that they, the business community, will step up and put the investment behind aid, and create that trade that will create stability in the area. The private sector, I think, universally across the board in this country will be behind this.

Senator Pell?

Senator PELL. Thank you, Mr. Chairman. You covered the ground very well. I join you in complimenting the President in his proposal for a comprehensive program with the Caribbean Basin Initiative.

This is a positive step in an effort to deal with the economic and social causes, the true causes of instability and insurgency in the area. I have always preferred economic aid to military aid. The latter deals with the symptoms of deep seated economic distress, but not with the causes. What we are trying to do here is deal with the causes.

There are some aspects of the proposal that concern us and I trust that the testimony will alleviate those concerns. Very briefly, they are one, what realistically can we expect to achieve as a result of this program?

Two, why is so much, such a disproportionate amount of this aid being directed at El Salvador, with other countries in the region receiving very little, and some like Nicaragua being excluded altogether?

Third, why is not a United States contribution to UNEP [United Nations Environmental Program], Caribbean Basin environmental program included in this initiative?

Fourth, what impact will the trade and investment provisions have on American-based businesses, particularly small business?

And finally, I understand that while the administration is putting forth this program, it is at the same time, contemplating sharp reductions in the American contribution to the soft loan window of the Inter-American Development Bank, which as we all know, devotes a substantial part of its resources to the Caribbean Basin.

If that is true, then it would seem to me, that we are getting into a robbing Peter to pay Paul situation, without adding much in toto to the total resources available to all of the nations of the region, with the exception of El Salvador.

The CHAIRMAN. Thank you very much, Senator Pell. Ambassador Brock, I understand that you do have a time problem this morning. I suppose that you will lead off as our witness then, and if you would advise the committee what your time situation is, I am certain that your colleagues will try to accommodate our putting questions to you in order to get you out on time. You can stay until 11:15, is that right?

Ambassador BROCK. That will be fine.

The CHAIRMAN. Thank you, very much. If you will proceed, please.

STATEMENT OF HON. WILLIAM E. BROCK, AMBASSADOR, U.S. TRADE REPRESENTATIVE; ACCOMPANIED BY HON. MARC LELAND, ASSISTANT SECRETARY FOR INTERNATIONAL AFFAIRS, DEPARTMENT OF THE TREASURY; HON. RAYMOND J. WALDMANN, ASSISTANT SECRETARY FOR INTERNATIONAL ECONOMIC POLICY, DEPARTMENT OF COMMERCE; AND HON. LEO V. MAYER, ASSOCIATE ADMINISTRATOR, FOREIGN AGRICULTURE SERVICE

Ambassador BROCK. Thank you, very much. May I say at the outset that I appreciate the comments that both of you have made and as usual, Chicago always does take the lead.

The CHAIRMAN. I thank you for saying it, I did not ask you to. [General laughter.]

But you are being recorded.

Ambassador BROCK. It is a great city and it has a great Senator. I am delighted to be with you.

The President has spoken eloquently on this subject, Mr. Chairman, so I will try to summarize my remarks in order to expedite the process.

The President did submit his plan, first in his presentation to the Organization of American States [OAS] and his subsequent message in the legislation to the Congress. We do have valuable friends and a vital interest in this region.

We also know that this particular initiative alone cannot guarantee both economic recovery and sustained growth. But if it can contribute significantly to a peaceful democratic outcome to this region's struggles with nation building, then it will have served its purpose well.

It is a multidimensional program, integrating carefully crafted and focused trade, aid and investment-related measures, which are meant to be self-reinforcing. We view the program as a dynamic development plan addressing both long- and short-term problems. It contains elements that will allow us to respond flexibly to the development obstacles confronted by the individual beneficiary countries.

It is, however, only one element of a broader, plurilateral initiative which can transform the Caribbean Basin from a region of despair and frustration into a region of hope and fulfillment. Our program was designed to foster self-reliance, rather than dependency. Developed with close consultation with more than two dozen nations of the Caribbean Basin, which are the potential beneficiaries. More than anything else, it is intended to give expression to the ideas of the people of the region itself.

In the United States, today, we have become acutely aware of the difficult problems besetting virtually all of the world's economies. The Caribbean, an area of small economies, which are fragile in the best of times, has been one of the regions hardest hit by the recent international economic development.

The Caribbean Basin as a region is nearly defenseless today—defenseless to the vagaries of the international economy. Battered by oil price hikes, more recently by the fall of sugar, and other commodity prices, these small economies have had to weather storms that are still posing a threat to economies many times their size and institutionally far sounder.

The Caribbean Basin Initiative is a response to regional economic problems that must be addressed if this country hopes to live in a hemisphere free from the suffering that is now so vividly apparent in the Caribbean. In the President's speech, he told us of our consultations with the potential beneficiaries, to ask them what they need and what they think would work. We learned through these discussions that the people of the region retain their confidence in the future.

It is the present that gravely concerns both business and government leaders alike. They see in the current environment substantial impediments to national economic revival and feel the prospects for a totally self-generated recovery are slim.

They have approached us, looking for ways in which we might assist in reducing what we mutually agree are the most important obstacles to self-renewal. We agreed that we would look for means to achieve both immediate economic relief and long-term development. We agreed that there would be obligations under the program for all of the partners. Action by the United States to be complemented by self-help measures on the part of the beneficiaries.

The nations of the basin were all vitally concerned with the question of market access. There can be little regional incentive to expand or to build new productive capacity if access to the hemisphere's largest market was not liberal and secure.

The Caribbean has not yet been able to use our GSP [Generalized System of Preferences] scheme with the same effectiveness as many, more competitive countries. And yet, the GSP program is nearing its 10th anniversary and is under intense scrutiny. Naturally there is uncertainty in the Basin about the future of that program. Accordingly, the President is requesting the authority to grant bidding-free access to all Caribbean Basin imports, with the exception of textiles and apparel covered by textile agreements, for a period of 12 years.

For some products, this will be the first time that duty-free access is being provided for any imports. The Basin governments and their private sectors also are deeply concerned by the need to improve the investment climate in their countries. One problem that they could not overcome, is a result of the current U.S. tax practice, which provides that a U.S. firm investing in the Caribbean is not eligible for the favorable tax treatment of fixed asset expenditures which is available in the United States under the domestic investment tax credit.

A simple and, we believe, equitable solution to this problem is our proposal to extend the same type of tax treatment for investments in the Caribbean Basin property as is now available for domestic property. It would extend this for a period of 5 years.

Concessional aid is the final and equally indispensable element of the initiative. Serious balance-of-payments problems and debt problems are resulting in severe pressures on commercial credit. In some nations there is not sufficient credit to support even the most basic private sector borrowing needs. Today, sums that are needed for this purpose are of manageable proportions. However, if we fail to act, the price of our delay could be in irreversible downward spiral.

You also have before you certain proposals regarding Puerto Rico and the Virgin Islands. We must insure that by reducing impediments to economic revitalization in the Caribbean Basin generally, as we do so, we will be establishing a relationship with Puerto Rico and the Virgin Islands that encourages these islands to play a dynamic role in the region, and that they are, in fact, benefited by the process.

One important consideration was the potential effect on their revenues of a duty reduction on rum. Accordingly, we are proposing that all excise taxes on imported rum be rebated to Puerto Rico and the Virgin Islands. Of similar importance will be the granting of tax benefits to these territories which will eliminate any semblance of fiscal discrimination. Other steps are proposed, including special treatment of Puerto Rico and Virgin Island goods, when they are used as input in Caribbean Basin exports.

If economic well-being means being able to meet human needs and aspirations, then it is appropriate for this initiative to address the question of reasonable workplace conditions and the right of workers to associate freely and to bargain collectively. It does so.

Finally, I have spoken today of the serious impediments to renewed economic activity which the initiative intends to address. It represents a mutual commitment to reduce these impediments. Self-help is the final and essential key needed to unlock the door to economic opportunity over the next decade. Whether we are referring to treatment of new inward investment, or the reform of current trade distorting devices, the nation's of the Basin must indicate a willingness to direct their economies in a manner conducive the entrepreneurial initiative. They have a strong and a good people. They are capable of production. As long as the energy and the spirit of the private sector is fully engaged, I have absolute confidence that our program will, in the long term, enable the economic revitalization that is intended.

Thank you very much.

[Prepared statements of Ambassador Brock, Mr. Leland, Mr. Waldmann, and Mr. Mayer follow:]

PREPARED STATEMENT OF AMBASSADOR WILLIAM E. BROCK

Chairman Percy and Members of the Committee, the President has transmitted to the Congress the legislation necessary to implement the Caribbean Basin Initiative. Before the Organization of American States in February, President Reagan spoke firmly of our vital interest in the well being and security of the countries of the Caribbean Basin. He also emphasized the close tie that prevails today between, on the one hand, economic health, and on the other, national independence and domestic tranquility. The Caribbean Basin Initiative is a bold, yet practical program for restoring economic health to this region. We know that the Initiative alone cannot guarantee both economic recovery and sustained growth, but if it can contribute significantly to a peaceful, democratic outcome to this region's struggles with nation building, then it will have served its purpose well.

You will be considering an innovative program for economic cooperation and economic partnership within this hemisphere. It is a multi-dimensional program, integrating carefully crafted and focused trade-, aid-, and investment-related measures, which are meant to be self-reinforcing. We view the program as a dynamic development plan, addressing both long- and short-term problems. It contains elements that will allow us to respond flexibility to the development obstacles confronted by the individual beneficiary countries. It is, however, only one element of a broader, plurilateral initiative which can transform the Caribbean Basin from a region of despair and frustration into a region of hope and fulfillment.

The President's program was designed to foster self-reliance, rather than dependency. It was developed in close consultation with the more than two dozen nations of the Caribbean Basin which are its potential beneficiaries, and more than anything else, it gives expression to the ideas of the people of the region.

The title of the Act makes clear the urgent purpose to which the program is directed. The economies of the Caribbean Basin are in critical need of a catalyst that will promote recovery. In the United States today, we have become acutely aware of the difficult problems besetting virtually all the world's economies. The Caribbean, an area of small economies which are fragile in the best of times, has been one of the regions hardest hit by recent international economic developments.

The Caribbean Basin as a region is nearly defenseless today to the vagaries of the international economy. Battered by the oil price hikes, and more recently by the fall of sugar and other commodity prices, these economies have had to weather storms that are still posing a threat to economies many times their size and institutionally far sounder. The result is the current setting in which violence and political radicalism is flourishing. The Caribbean Basin Initiative is a response to regional economic problems which must be addressed if this country hopes to live in a hemisphere free from the suffering that is now so vividly apparent in the Caribbean.

In the Presidents' speech, he told of our consultations with the potential beneficiaries—to ask them what they need and what they think would work. We learned through these discussions that the people of the region retain their confidence in the future. It is the present which gravely concerns both business and government leaders alike. They see in the current environment substantial impediments to national economic revival, and feel the prospects for a totally self-generated recovery are slim. So they approached us looking for ways in which we might assist them in reducing what we mutually agreed were the most important current obstacles to self-renewal. We promised a response, and agreed that we would look for means to achieve both immediate economic relief and long-term development. Finally, we agreed that there would be obligations under the program for all the partners, and actions taken by the United States would be complemented by self-help measures on the part of the beneficiaries.

Let me now review with you the impediments that the Caribbean nations identified during our consultations and explain how the initiatives elements respond to these problems.

The nations of the Basin were all vitally concerned with the question of market access. There would be little regional incentive to expand or to build new productive capacity if access to the hemisphere's largest market was not liberal and secure.

While a high percentage of traditional Caribbean products can now enter our market free of duty under the Generalized System of Preferences, many potential Caribbean exports have either never been eligible under this scheme, or have been reviewed under the GSP petition process for possible removal. Where the Caribbean is a successful exporter, the competitive need limitation is a disincentive to expanded production. Further, the Caribbean has not yet been able to use the scheme with the same effectiveness as many other more competitive countries. The GSP program is nearing its tenth anniversary and will be under scrutiny for renewal. Naturally, there is uncertainty in the Caribbean Basin about the future of the GSP program.

Accordingly, the President is requesting the authority to grant duty-free access for all Caribbean Basin imports, with the exception of textiles and apparel covered by textile agreements, for a period of 12 years. For some products, this will be the first time that duty-free access is being provided for any imports. We do not believe this will pose a threat of injury to any affected U.S. industry. Should, however, a threat of injury, or injury itself, actually develop, we will retain the ability to safeguard U.S. industry from Caribbean products using the same remedies available under Sections 201 to 203 of the Trade Act of 1974.

The Caribbean Basin governments and their private sectors also were deeply concerned by the need to improve the investment climate in their countries. One problem that they could not overcome was a result of current U.S. tax practice which provides that a U.S. firm investing in the Caribbean is not eligible for the favorable tax treatment of fixed asset expenditures which is available in the United States under the domestic investment tax credit. The simple, and we believe equitable, solution to this problem is our proposal to extend the same type of tax treatment for investments in Caribbean Basin property as is now available for domestic property. This treatment would be extended to qualifying beneficiaries for a period of 5 years.

So in the case of both our trade and tax proposals, the impact of the measures will depend on the initiative of both the public and private sectors. A more amenable climate for commercial activity is being created, but market forces ultimately will determine the success of our joint efforts.

Concessional aid is the final, and equally indispensable, element of the Initiative. Serious balance of payments and debt problems are resulting in severe pressures on commercial credit. In some nations, there is not sufficient credit to support even the most basic private sector borrowing needs. Today, the sums that are needed for this purpose are of manageable proportions. If we fail to act, the price of our delay could be an irreversible downward spiral.

You also have before you certain proposals regarding Puerto Rico and the Virgin Islands. We want to assure that in reducing impediments to economic revitalization in the Caribbean Basin generally, we will be establishing a relationship with Puerto Rico and the Virgin Islands that encourages these islands to play a dynamic role in the region.

One important consideration was the potential effect on their revenues of a duty-reduction on rum. Accordingly, we are proposing that all excise taxes on imported rum be rebated to Puerto Rico and the Virgin Islands. Of similar importance will be the granting of tax benefits to these territories which should eliminate any semblance of fiscal discrimination. Other steps are proposed, including special treatment of Puerto Rican and Virgin Islands goods when they are used as input in Caribbean Basin exports.

If economic well being means being able to meet human needs and aspirations, then it is appropriate for the Initiative to address the question of reasonable workplace conditions and the right of workers to associate freely and bargain collectively. To achieve these goals, we propose to increase by $2 million our foreign assistance spending for the development of free labor movements, through the Latin American Regional/American Institute for Free Labor Development, and to make the granting of beneficiary status dependent on the degree to which these conditions are met.

I've spoken today of the serious impediments to renewed economic activity which the Caribbean Basin Initiative is intended to address. The Initiative represents a mutual commitment to reduce these impediments. Self-help is the final key needed to unlock the door to economic opportunity over the next decade. Whether we are referring to treatment of new inward investment, or the reform of current trade-distorting devices, the nations of the Basin must indicate a willingness to direct their economies in a manner conducive to entrepreneurial initiative. As long as the energy and spirit of the private sector is fully engaged, I have confidence that our program will enable the economic revitalization that is intended.

PREPARED STATEMENT OF HON. MARC E. LELAND

Mr. Chairman, I welcome the opportunity to appear before your Committee to discuss the Caribbean Basin Initiative. This is a foreign policy program of high priority for this Administration and I hope we will be able to move forward quickly with it. The package we are proposing has been carefully crafted over the past several months and is aimed at addressing the serious economic problems which confront the nations of the Caribbean and Central America. Through it we hope to be able to help its beneficiaries establish the foundations for more stable and sustained economic development and enhance their ties with the United States.

NATURE OF THE PROBLEMS OF THE COUNTRIES IN THE REGION

The Caribbean Basin Initiative includes about two dozen countries with a total population of about 41 million. Combined GNP is about $40 billion, or $975 per capita but it ranges from less than $300 annually in Haiti to over $3,000 annually in the Bahamas. These countries exported a total of about $10 billion to the United States in 1980, but only $4 billion if petroleum is excluded.

Although the countries of the region are quite diverse in terms of size, resource endowment, and heritage, many of them suffer from a number of common economic problems. Nearly all have been hard hit by the precipitous rise in energy costs since 1974 which have increased their petroleum import bills on average by more than sixfold. Costs of financing other imports, notably capital goods and food, have also risen rapidly.

On the other hand, most of them are heavily dependent on one or a small number of primary products for the bulk of their export earnings. In general, price increases for these products have not kept pace with those of imports. The result has been a foreign exchange squeeze which has produced increasingly serious balance of payments difficulties, particularly for some of the larger countries.

At the same time, rising interest rates in international financial markets over the past few years have made it more difficult and expensive for them to borrow. In some instances, such borrowing was not even a possibility because of the perception that the prospective borrower was not creditworthy. This has made it difficult to obtain both the financial and real capital necessary to produce an acceptable rate of economic growth.

Another problem is limited market size. Virtually all of the countries in the area have populations of less than 7 million people and several have less than one hundred thousand. While strong efforts have been made to promote greater economic integration among these countries, in some cases with success, the expansion of intra-regional trade has been far from sufficient to meet their needs. Nor does such integration alone have the potential to do so, given that these nations are already poor and lack the means to create sufficient demand.

Most of the area's economies are also heavily dependent on public sector spending and investment to stimulate growth. The private sector is relatively weak and has been made even more so by the depressed economic conditions widely prevalent in recent years. In some cases inappropriate development strategies have aggravated these problems.

Political upheavals have also had a negative impact. In several cases such turmoil has produced a prolonged contraction in economic activity with an incalculable economic and psychological impact on the people involved. Real standards of living have fallen dramatically from already low levels, thereby contributing to further social unrest. In El Salvador, for example, real GNP has declined by 20 percent over the past two years. During the 1970's Jamaica suffered seven consecutive years of negative growth and is only now beginning to recover.

I need not dwell on the implications for the United States of the problems just described except to say that obviously it is not in our best interests to allow them to persist. Many of the potential beneficiaries are already trying to implement the necessary economic adjustment measures. Several countries have undertaken IMF supported stabilization programs and others are in the process of negotiations with the IMF.

But these problems are difficult and the negative economic environment they have created has tended to be self-perpetuating. They will not be overcome unless they are addressed resolutely with the proper mix of internal economic policies and external assistance. Sound monetary, fiscal, and other economic policies which allow market mechanisms to operate as freely as possible are of paramount importance. We intend to use our program to help induce recipient countries to move in this direction. With the proper responses it can help create the necessary environment to make their economies stronger and more self-sufficient.

THE PROPOSED PROGRAM

The heart of the Administration's proposal is a free trade arrangement which will allow beneficiary countries improved access for their products to the U.S. market. It is evident that such trade opportunities are critical to the ability of developing countries to provide the necessary stimulus to their economies. One has only to look at the experiences of the newly industrialized countries of Latin America and Asia which have emerged over the past decade. In every case the creation of an environment favorable to rapid export growth has been a key element of their success. We expect that this will be a major drawing card for new investment in the region to take advantage of these improved market possibilities and lower cost structures.

As an additional and reinforcing inducement for investment we are proposing an important tax incentive for potential investors in the area. This is the investment tax credit of up to 10 percent of the cost of machinery and equipment used in qualifying beneficiary countries. This incentive will increase labor productivity and help to encourage the employment of labor. It will promote productive investments which will stimulate the economic development of the region.

These two elements of the program—trade and tax incentives—are primarily aimed at encouraging medium and long term development. But many countries require an immediate injection of financial resources to purchase imports to keep their economies going. Thus, the Administration is also proposing a $350 million aid supplemental this year to help countries meet their immediate needs. The bulk of these funds would go to a few countries—Costa Rica, the Dominican Republic, El Salvador, Honduras and Jamaica—whose balance of payments problems are most pressing. These funds along with the other elements of our FY 1982 aid program can both relieve the immediate financial problem and create an incentive for economic reforms required to assure sustained economic growth over the longer term.

IMPACT ON THE UNITED STATES

The Administration's proposal is not a one way street. It promises to reap substantial benefits for the United States. Obviously it is in our own best security interests to help insure that our neighbors are healthy and prosperous. But there are other potential gains for us as well. The improved access of Caribbean products to the U.S. market promises to benefit our consumers through lower prices. Also, as the economies in the region expand, new market opportunities will arise for U.S. producers.

This program is not expected to exert much, if any, adverse effect on the U.S. economy, either in the short run or over the longer term.

To give you an idea of the possible economic impact of the program on the United States, it is useful to look at the current level of dutiable imports from the Caribbean and how these might change under our program. In 1980 duties were collected on $800 million in imports from the Caribbean and Central America, excluding textiles and apparel. With the elimination of tariffs, even if these import figures doubled or tripled over the next few years the impact in the United States would be negligible.

Of course, this in itself may not be a good measure of the possible impact because we would expect the program to promote a dynamic response and help to promote new industries since exporting now would be more attractive. Another point of comparison, then, is our experience with the GSP program. Since its inception in 1975 duty-free imports under this program have grown to slightly more than $8 billion last year. Of course, this includes imports from countries such as Brazil, Korea and Hong Kong with much greater production capacities than any of the potential beneficiary countries. Even if the program were spectacularly successful the additional exports which it would generate almost certainly would not even approach this figure. But this in no way diminishes the importance of the program. Given the size of the economies it would be helping, we expect it to be of substantial benefit to them.

TAX INCENTIVES

The tax incentives may be divided into two parts: (a) the extension for 5 years of the investment tax credit aimed at promoting investment in the Caribbean Basin countries and; (b) the expansion of the property eligible for the investment tax credit and other incentives which are intended to restore the favored tax status of Puerto Rico and the Virgin Islands.

The Caribbean Basin investment tax credit is designed to encourage investment in machinery and equipment in qualifying Caribbean Basin countries. Generally, it is not extended for buildings or other structural components. This incentive was selected because it requires the investor to make a productive investment in order to qualify. The additional real capital which it generates will help to strengthen the production base of the region's economies, improve labor productivity, and stimulate new employment. At the end of 5 years, consideration may be given to an extension of the credit on a bilateral basis through a tax treaty. A decision regarding extension of the tax credit, both to existing and new treaty partners, will not be made without full consultation with interested Congressional Committees.

As a prerequisite to qualify for the tax credit a country must enter into a bilateral agreement with the United States for exchange of information for tax administration purposes. Treasury believes that such agreements are useful because they will help tax administrators in both countries. The United States will benefit in particular by access to information which is needed to properly administer the investment tax credit and other U.S. tax laws. Moreover, since some countries in the Caribbean are tax havens used to contravene U.S. tax laws, they should not benefit from these tax incentives unless they are willing to cooperate with the United States on tax matters.

The extension of the investment tax credit for Caribbean Basin property is not inconsistent with this Administration's strong policy against use of our tax treaties for conduit investments in the United States by residents from countries other than our treaty partner. Our opposition to such tax treaty abuse is sound international tax policy and consistent with the objectives of the Caribbean Basin Initiative. The purpose of the Initiative is served by encouraging increases in productive economic activity and self-sustaining growth in the Caribbean Basin countries. This purpose is not served by creating or sustaining tax haven activity which is contrary to U.S. tax treaty policy, undermines the operation and administration of the Internal Revenue Code, and fosters an increased dependence by the tax haven country on the United States.

A part of the U.S. longstanding special relationship with Puerto Rico and the U.S. Virgin Islands has been favored tax treatment of taxpayers operating in these jurisdictions. The passage of the Economic Recovery Act of 1981 unintentionally reduced the effectiveness of this special treatment. At the same time, the extension of the investment tax credit to the Caribbean Basin will encourage investment there, perhaps to the disadvantage of Puerto Rico and the U.S. Virgin Islands. In light of these facts the Administration proposes to extend to them additional tax incentives for investment.

Most U.S. corporations operating in Puerto Rico and the U.S. Virgin Islands currently benefit from special provisions in the Internal Revenue Code (principally sections 936 and 934) which effectively eliminate Federal tax on income from a trade or business there. Puerto Rico and, to a certain extent, the U.S. Virgin Islands, in turn, grant tax holidays for most manufacturing operations. These corporations have not been eligible for the investment tax credit and the benefits of accelerated cost recovery deductions (ACRS) for property used predominately in Puerto Rico or a possession.

The proposed legislation allows these corporations the investment tax credit. Since such corporations generally pay little or no tax in the United States, they are unable to use these tax benefits to reduce their tax liabilities in the United States. The proposed legislation therefore also allows such domestic companies to pass the investment tax credit and a portion of the tax benefits of ACRS to their parent corporations in the United States. This will restore the relative preference for investment in Puerto Rico and offer an important incentive to investment in the Virgin Islands.

Finally, the legislation provides for some modifications in the disposition of excise taxes collected on rum. Puerto Rico and the Virgin Islands currently provide about 90 percent of the U.S. rum market and, at present, the entire amount of U.S. excise taxes collected on rum produced there is transferred to them. Since the Act proposes to reduce import duties on rum produced in other Caribbean Basin countries, the Puerto Rican and U.S. Virgin Islands' share of the U.S. rum market may decrease. This could adversely affect the rum industries in Puerto Rico and the U.S. Virgin Islands and reduce the amount of U.S. excise tax collections the island governments currently receive. To maintain this revenue source the legislation provides that excise taxes collected at the current rates on rum imports into the United States from *any* country will be transferred to Puerto Rico and the Virgin Islands, provided that the amount transferred will not exceed the amount per proof gallon which would be paid over if the rum was produced in Puerto Rico or the U.S. Virgin Islands.

CONCLUSION

The Caribbean Basin Initiative is a bold and imaginative package which promises to reap substantial benefits both for beneficiary countries and the United States. It will embody a substantial increase in U.S. economic assistance in support of a concerted effort on the part of the Basin Countries to pursue appropriate economic policies and offer them the chance to take advantage of new opportunities in the U.S. market as well as important incentives for new investment. It will help to restore greater stability to the region and strengthen mutually beneficial ties with the United States. I would urge the Congress to move ahead quickly with the legislative proposal so that we may begin to implement the program as soon as possible.

PREPARED STATEMENT OF HON. RAYMOND J. WALDMANN

Mr. Chairman and members of the Committee, I welcome this opportunity to appear before you today to discuss and support strongly the Administration's Caribbean Basin Initiative (CBI) which President Reagan announced last month. The comprehensive package of trade, investment and aid measures before you is aimed both at addressing the critical short-term economic problems facing our Caribbean neighbors and at laying a solid foundation for their long-term economic growth and development. Faced with high unemployment and inflation, foreign exchange shortages, falling commodity prices and sharply increased oil import bills, the small and fragile economies of the region are in critical need of a catalyst to promote economic revitalization. The CBI program is designed to stimulate market-oriented economic policies and to promote expansion in the Caribbean countries, thus helping our neighbors create an environment in which private initiative and new economic activity can flourish. The Initiative is not intended as a "quick fix" solution to the critical problems facing our Caribbean neighbors, but rather as a long-term integrated program designed to foster economic self-reliance and development.

Increased private sector participation in the economic development of Caribbean Basin economies is essential to the success of the CBI. The trade, investment and economic assistance provisions of the CBI program are designed specifically to promote such private sector activity in the Basin countries. The private sector will play a vital role in helping to ensure the growth of productive capacity, the efficient allocation of resources and the establishment of a firm foundation for long-term economic growth.

While the President's CBI package offers attractive incentives for businesses to increase their Caribbean-related activities, follow-up steps clearly will be needed to ensure that the private sector is able to take full advantage of the measures. Economic deterioration has become widespread and economic revitalization cannot be expected to occur overnight. Existing industrial capacity in CB countries is limited. Businesses in both the United States and the Basin countries must be made aware of the increased opportunities offered by the CBI and these, in turn, must be incorporated into effective business planning for trade and investment that can be sustained over a longer period. Caribbean governments also must take specific actions that support new private sector activity.

The Administration has already begun work aimed at ensuring the greatest possible private sector participation in the Caribbean Basin Initiative. As part of this work, the Department of Commerce has established a Caribbean Basin Trade, Investment and Business Information Center within our Office of Central America. This Center has been charged with responsibility for providing a full range of support services to U.S. businesses wishing to increase their Caribbean trade and investment activities.

The Center's activities will be coordinated with the U.S. Commercial Service and the Foreign Commercial Service located in participating Caribbean countries. The Center will provide detailed information to interested private sector individuals and groups on the trade, investment and economic assistance measures of the CBI program. The Center also will be responsible for developing in-depth information banks on Caribbean country trade and investment policies and conditions. These information banks will be used to identify and evaluate key trade and investment opportunities for U.S. business and major impediments to U.S. businesses seeking to expand their Caribbean Basin activities. The information banks will form the basis for responding to specfic business inquiries concerning trade and investment policies and conditions in Caribbean countries and for designing and implementing seminars and other programs to help expand U.S. business involvement in the Basin countries.

In addition, the Commerce Department's Information Center will play a central role in the Administration's efforts to ensure that beneficiary countries take steps to maximize the potential benefits of the CBI program. The CBI measures were developed in close consultation with the countries of the region and reflect their ideas and concerns. As President Reagan emphasized in his February 24 speech to the Organization of American States, the CBI program is designed to help our Caribbean neighbors help themselves by creating conditions under which creativity, private enterprise and self-help can flourish.

The CBI's free trade area and investment measures are designed not only to help Caribbean countries expand their productive capacity in existing industries but also to assist them in diversifying their productive base and thus lay the groundwork for more balanced economic growth. The CBI will be successful in encouraging new trade and investment only if the Caribbean countries also take steps on their own to encourage the freer flow of economic resources. Title I of the CBI legislation therefore states that in designating beneficiary countries the President will take into account: countries' self-help measures to promote economic development, their overall trade policies (including the use of export subsidies and export performance requirements), and other relevant economic conditions.

The Commerce Department will be participating fully with USTR and the State Department in consultations with potential beneficiaries of the CBI. Using our resources and input from our private sector advisors we will be discussing with the Caribbean governments the extent to which their current policies facilitate or impede trade and investment opportunities and the extent to which new self-help measures to promote private sector economic activity are being planned. In order to ensure that these countries are able to take maximum advantage of the CBI measures, we will propose establishing on-going information exchanges and consultations with them aimed at resolving specific problems facing Caribbean countries and U.S. businesses seeking to expand private sector activities.

It is not possible to quantify precisely either the long-term impact of the CBI on Caribbean countries' economies or the CBI's overall impact on the U.S. economy. We firmly believe that the proposed CBI measures, together with the follow-up plans I described, will provide an important stimulus to promote market-oriented policies and increase production. The economies we are aiding are small, currently accounting for only about 2½ percent of total U.S. non-oil imports. Most Caribbean countries export only a limited range of products, many of which are already duty-free. Indeed some 70 percent of total Caribbean non-petroleum exports to the United States in 1980 entered duty-free under the U.S. Generalized System of Preferences or as a result of most-favored-nation duty-free status. In the cast majority of product areas the Caribbean Basin countries as a whole are very small suppliers to the United States. U.S. industry, however, will continue to have access to protection from serious injury, or the threat thereof, resulting from duty-free Caribbean shipments to the United States. In addition, given the strong U.S. position in Basin markets, the Caribbean demand for U.S. exports is expected to increase significantly as Caribbean countries develop. In most Caribbean Basin countries the United States is the major supplier of imports, in some cases accounting for 40 percent or more of total imports.

Before concluding I would like to focus briefly on another aspect of the CBI which is of special importance to the Department of Commerce: the role of Puerto Rico in this program. This Administration places a high priority on maintaining our special economic relationship with Puerto Rico. We therefore have consulted closely with the Puerto Rican authorities during the past several months to ensure that their economic development concerns were taken into account and that Puerto Rico also will benefit and prosper from the CBI program.

In April 1981, the interdepartmental White House Task Force on Puerto Rico was created as a vehicle for communication between Puerto Rico and the Administration. I have served as the Commerce Department's representative on this Task Force and chair the Task Force's economic Subgroup. The Task Force and Subgroup have met with Puerto Rican authorities on many occasions during the past several months in order to discuss Puerto Rico's concerns and proposals regarding our Caribbean initiative. We also have met with the Virgin Islands' authorities in order to discuss the impact of the CBI on their economy. The CBI legislation submitted to Congress is designed to address Puerto Rico's and the Virgin Islands' specific concerns in the following ways:

Federal excise taxes on all imported rum will be rebated to Puerto Rico and the Virgin Islands;

Inputs (value-added) from Puerto Rico and the Virgin Islands will be considered as indigenous Caribbean inputs for purposes of the free trade area's rules of origin requirements;

The benefits of the Investment Tax Credit (ITC) and the Accelerated Cost Recovery System (ACRS) will be extended to eligible companies operating in Puerto Rico and the Virgin Islands; and

An increased allowance for the duty-free importation of locally produced alcoholic beverages from the Virgin Islands will be established.

These measures, and the anticipated overall expansion in Basin economic activity, create clear opportunities for Puerto Rico and the Virgin Islands. We expect they will take full advantage of their more developed industrial and services infrastructures to engage in production sharing with Basin countries and provide them with the necessary shipping, banking, and construction services.

During the coming months we will continue to consult with Puerto Rico and the Virgin Islands to ensure that their economies benefit from the implementation of the CBI.

The CBI package presents us with a unique opportunity to aid the development efforts of our Central American and Caribbean neighbors. The integrated program of trade, aid and investment measures which the President has submitted to you is designed to help our neighbors help themselves. Our goal is to help these countries build a better life for their people, not just economically, but across the full range of human needs and aspirations. We cannot ignore the current economic crisis facing our neighbors. Their well-being and security are in our own vital interest. With our support, these countries will be able to meet the challenge of restoring economic growth and establishing a more prosperous and just society in which all can benefit.

PREPARED STATEMENT OF HON. LEO V. MAYER

Mr. Chairman, I am pleased to meet with you to discuss the Caribbean Basin Initiative as it relates to agriculture.

The Department of Agriculture has an interest, and a responsibility, in both the economic development and the trade aspects of the initiative.

The Department's contribution to development in poorer countries, going back more than 30 years, is well known, and we are prepared to increase our technical and scientific help to improve agricultural systems in the region.

Agricultural trade between the United States and the Caribbean Basin countries is substantial. Last year it was valued at $3.5 billion, and we would expect agricultural improvements and economic growth to stimulate trade in both directions.

The agricultural picture in the Basin is not particularly encouraging at this time. The rate of growth in agricultural production has declined sharply—from a growth trend of 4 to 6 percent in the 1970's to only 1.5 percent last year.

Export earnings from agriculture, which account for about half of total Basin export income, are suffering a decline. World prices are soft for the region's major agricultural exports—bananas, coffee, sugar, beef, cotton and cocoa.

The agricultural sector's contribution to the gross domestic product also has been steadily declining, ranging today from more than 40 percent in Haiti to less than 2 percent in Trinidad/Tobago. At the same time, about 57 percent of the region's population of 37 million remains rural, and overall population is growing by nearly 2 percent a year.

It seems readily apparent that modernization of the agricultural sector in these countries is crucial to meeting the food needs of the region's growing population and to provide a solid base for economic growth.

The Department has been active in development and food assistance in the Basin countries, and we are looking at ways to increase the level of these activities.

Our fiscal 1983 budget request for Public Law 480 food assistance tied to self-help agricultural development projects in Basin countries has been increased to $89 million. This is a 43 percent jump from the 1981 level.

Public Law 480 projects underway or planned under the agreements with recipient countries include irrigation, erosion control, improved production and credit facilities, crop diversification, and improved import handling facilities.

Another project, proposed for Public Law 480 support in Jamaica, is designed to encourage participation by U.S. agribusiness in helping to solve agricultural problems by providing technical and management expertise and capital through joint ventures or other ways.

This type of activity could be expanded with good effect. We believe that U.S. private investments should help to develop mutual trade between the United States and Caribbean Basin countries that would be beneficial to all.

USDA expertise can be useful in other areas, such as improving animal and plant health and quality, expanding agricultural research and training opportunities, and coordinating bilateral agricultural programs with multilateral organizations.

Certainly a Caribbean Basin free of animal disease would be mutually beneficial to the region and to the United States. As a step toward the disease-free goal, USDA and the Agency for International Development recently completed a successful swine fever eradication program in the Dominican Republic. The program now is being moved to Haiti, and we envision more of this type of cooperation under the CBI.

These and other proposals offer opportunities for USDA and the U.S. agricultural community to play a stepped up role in Caribbean Basin development, and we are prepared to do our part.

As for agricultural trade with the Caribbean Basin countries, U.S. exports to the region last calendar year totaled $1.6 billion, consisting largely of wheat, corn, soybeans and soybean products, and inedible tallow.

U.S. imports from these countries totaled $1.9 billion. About four-fifths of this was in bananas and coffee, which are noncompetitive products, and sugar, molasses, and beef, which are produced in this country.

When the Caribbean Basin Initiative was being developed, it was recognized that the free trade provisions would pose problems peculiar to certain agricultural products, and the implementing legislation takes account of this.

The first of these is sugar, which presents a unique situation. In order to prevent massive government acquisitions of sugar under the price support program mandated by the Agriculture and Food Act of 1981, the Department must protect the domestic price of sugar. Therefore, sugar imports from the Caribbean Basin receive special treatment under the Initiative.

The mechanisms used to maintain the integrity of the domestic sugar program are an import fee imposed under Section 22 of the Agricultural Adjustment Act, currently 2.1418 cents per pound, raw basis, and an import duty, currently set at the maximum of 2.8125 cents per pound.

The Section 22 fee is applied to all sugar imports from whatever origin. However, among the Basin countries the duty is applied only to the three largest suppliers—the Dominican Republic, Guatemala, and Panama. Sugar from the other Caribbean sources enters duty free under the Generalized System of Preferences (GSP).

Our sugar proposal for the Caribbean Basin Initiative would (1) leave the import regime for the lesser suppliers intact, (2) eliminate the import duty for the three largest suppliers, and (3) set an absolute limit of 1.15 million tons of sugar per year from these three. This would be 110 percent of the average of the best two of their last three years of exports to the United States.

A safeguard mechanism would permit the President to suspend the duty-free treatment on all or part of the absolute quota if such an action became necessary to protect the price support program.

In addition, the Section 22 fee may be adjusted to account for the increase in duty-free sugar imports.

We believe this is a workable solution to a difficult problem. It permits us to meet our responsibility to the domestic program while affording duty-free treatment in keeping with the spirit of the CBI, and it does so in a manner which should not cause concern among non-Basin sugar suppliers.

There is nothing in the sugar proposal to encourage greater sugar production in the Basin. In fact, the effect of other elements of the CBI will be to encourage diversification away from sugar.

The competitive situation of the smaller Basin countries is unchanged, and the export limits on the Big 3 suppliers, fixed for the life of the program, are consistent with their export performance over the past six years.

The CBI proposal also recognizes that perishable horticultural products, because of their short marketing seasons and shelf life require special treatment.

A significant number of these items already enter duty free under the GSP program. Most tariffs on the dutiable products, which vary by season, average around 1.5 cents to 2.5 cents per pound. All of those products which are presently dutiable under the CBI would enter duty free.

Several sensitive non-GSP horticultural items—tomatoes, cucumbers, squash, and eggplant—would be included in the Initiative; however the countries covered by Caribbean Basin Initiative are not major suppliers of these products.

The CBI proposal takes accounts of the fact that speedy action would be needed to provide relief to domestic producers from a harmful surge of imports of perishables.

The proposal authorizes an injured domestic producer of perishables products to file a petition for relief under Section 201 of the Trade Act and, simultaneously, with the Secretary of Agriculture. If the Secretary finds that the industry's situation merits import relief, he will recommend within 14 days that the President reimpose the Most Favored Nation duty for the product in question on an emergency basis. If the President concurs, the President would reimpose the duty within 7 days. The duty would remain in effect pending the resolution of the 201 petition.

Those who petition for relief under this proposed new safeguards law still would have to show the same degree of injury as current petitioners under Section 201 of the Trade Act. However, pending resolution of the complaint, the Government would be able to respond quickly in cases where a business would be damaged badly while awaiting results of an ITC investigation.

In summary, the Department of Agriculture recognizes that a sound agriculture is basic to sound economic growth, and we are prepared to help the countries of the Caribbean Basin to improve their agricultural systems. The CBI proposal will permit this assistance while providing safeguards against adverse effects.

That concludes my statement Mr. Chairman. I will try to answer any questions the Committee might have.

Senator **Kassebaum** [presiding]. Thank you, very much, Ambassador Brock. Ambassador Stoessel.

Ambassador **Stoessel**. Thank you, Madam Chairman. I have a statement which I would like to submit for the record, and with your permission, I will summarize it briefly.

Senator **Kassebaum**. Thank you, your full statement will be included in the record.

STATEMENT OF HON. WALTER J. STOESSEL, JR., DEPUTY SECRETARY OF STATE

Ambassador **Stoessel**. Our goals under the Caribbean Basin Initiative are a region at peace with itself, which is free from outside threats and able to devote its energy to economic progress, and the development of Democratic institutions. Security, democracy, and economic development are clearly linked together.

A comprehensive strategy requires support for Democratic institutions and assistance to small countries to defend themselves. The centerpiece of this strategy must be to help the small and troubled countries of the Caribbean Basin through the very severe economic crises that they are experiencing, to give them the opportunity to achieve self-sustaining growth and to give them hope in their futures, with Western values as the foundation for their freedom and independence.

This is the purpose of the President's initiative, which Ambassador Brock has described. Our approach is a cooperative and multilateral undertaking, with the core group of donor countries; Canada, Colombia, Mexico, and Venezuela, with the multilateral institutions and with the countries of the Caribbean who will benefit from the program.

The need is very urgent. We certainly recognize that it is not easy to increase our assistance when we are asking our own people at home to tighten their belts. But to postpone action risks far greater costs and danger in the future.

As the President has said, the region of the Caribbean is one which is of vital interest to the United States. The countries there are our neighbors. Their troubles inevitably become our troubles. And now we see that the Caribbean, which is so vital from a security standpoint, is threatened by economic collapse, political violence, and Cuban support for subversion.

The President's program is intended to help promote stability and freedom in the Caribbean Basin. As Ambassador Brock has said, it is the product of very close consultations for almost a year throughout the Caribbean Basin. We know what needs to be done, and we do have partners in this undertaking.

The President is asking for a long-term commitment to help the small, fragile countries in our own neighborhood. With the support of the Congress, the United States can act to protect its long-term interests in the area and those of the countries involved.

Thank you.

[Ambassador Stoessel's prepared statement follows:]

PREPARED STATEMENT OF HON. WALTER J. STOESSEL

Mr. Chairman, on March 17, the President sent the Congress a major new program of economic cooperation for the Caribbean Basin. He asked the Congress to give it urgent attention. I am pleased by the promptness with which this committee is beginning its deliberations. I am glad to have this early opportunity to share our views with you on this important initiative.

Our goals can be summarized as follows: We seek a region at peace with itself, free from outside threats, able to devote its energy to economic progress and the development of democratic political institutions. Security, democracy, and economic development are clearly linked.

To move toward these goals, the need for the President's program is urgent. Yet we recognize that it is not easy to increase our help to the Caribbean Basin now when our own economy is in recession and we are asking our people to tighten their belts. But it can't wait.

As the President said in his address to the OAS: "Make no mistake: The well being and security of our neighbors in this region are in our vital interest." The time to act, in fact, was some years ago; now we postpone action at the risk of far greater cost and danger in the future.

PRESENT CRISIS IN THE REGION

The nations of the Caribbean Basin are in serious trouble. Because their peoples are our neighbors we cannot turn our back on their plight. It is our neighborhood and there is no way we can simply pick up and move out. The troubles there inevitably become our troubles.

When times are hard for us they are usually even harder for our smaller and poorer neighbors. When economic conditions are bad—and they are bad now—thousands of people migrate from the Caribbean to the United States and other countries.

We know the human tragedy of refugee movements. A few months ago, several Haitians lost their lives trying to reach Florida. Two years ago more than 120,000 Cubans risked their lives to come to the United States. We also know the enormous social and economic burdens these waves of refugees bring to the communities that receive them.

The Caribbean is also vital to our security. In the debate over the Panama Canal Treaties, the one question on which there was universal agreement was that the Canal had to be kept open. Yet the Canal itself is but one short 50-mile span in thousands of miles of Caribbean sea lanes. Nearly half of our crude oil imports—in fact, nearly half of all our exports and imports pass through these vital sea lanes.

Today the peace and security of the Caribbean Basin are deeply threatened by a web of political violence, economic collapse and Cuban support for subversion. In the Caribbean, the smallest islands are as exposed politically as they have long been to the sudden violence of tropical storms. Three years ago a tiny band of armed men, who turned out to be Marxists, took over the nation of Grenada ; other islands are equally vulnerable to small groups of many political stripes, adventurers or even gangsters. In Central America, acute economic troubles are unsettling rigid social compacts formed generations ago in Guatemala, widening distrust in El Salvador, and bringing Costa Ricans to worry about the sturdy democratic compact that has served them well for more than 30 years.

SOVIET/CUBAN THREAT

Timing its move to exploit these vulnerabilities, Cuba has mounted a campaign to establish Marxist-Leninist dictatorships in both Central America and the Caribbean. Beginning in 1978, Fidel Castro redoubled his efforts to discredit Basin governments, ridicule democracy and glorify armed violence. The Cuban Government has covertly trained, supplied and directed extremists engaged in guerrilla warfare and economic sabotage.

Arms delivered through Nicaragua to guerrillas in El Salvador with Cuban and Soviet help have come from as far away as Vietnam. Cuba's air force now has 200 or more Soviet-supplied Mig fighter-bombers. Should Cuba's Soviet Migs be able to utilize airports now under construction in Grenada and Nicaragua, their range would be greatly extended.

If Soviet Migs or submarines were to be based in the Caribbean area, we would be forced to divert American defensive strength from Europe and Asia to develop a costly military shield where today we have none.

Our message to Cuba is clear. We will not accept that the future of the Caribbean Basin be manipulated from Havana. It must be determined by the countries themselves.

Self determination is best assured and progress toward democracy is best achieved when a country's economy is developing well. A country is most secure when it can promise its people freedom and economic progress. It is the purpose of the President's plan to help the countries of the Caribbean Basin achieve self-sustaining economic growth as a foundation to maintain freedom and independence as sovereign nations.

ECONOMIC PROBLEMS

The countries of the Caribbean Basin face very serious economic difficulties and need the support of the international community. Declining prices for traditional exports—such as sugar, bauxite and coffee—together with higher costs for essential imports, especially energy, have created serious balance of payments problems, contributed to widespread unemployment and fostered a climate of general economic malaise and dispair.

The world recession pinches these economies hard. The results have been disastrous. Costa Rica's GDP declined 5 percent in 1981. Inflation rose to 60 percent. Foreign exchange reserves—in a country of 2 million—became negative by $400 million. It's external debt for both public and private sectors exceeds a staggering $3.6 billion.

The Dominican Republic, after a decade of strong growth, expects no better than zero growth this year. Earnings from sugar sales, its main export, could decline by 40 percent in 1982, and its current account deficit could approach $1 billion.

In El Salvador, violence and economic sabotage have brought the economy to the point of collapse. Output in 1981 fell 10 percent after a decline of 10 percent in 1980. With economic assistance planned by the United States and other donors this decline may be reduced or even a zero growth achieved in 1982.

MULTILATERAL EFFORTS

Over the past year, we have consulted closely with the countries of the Caribbean Basin. We have formed a core group of donors with Canada, Mexico, Venezuela, and Colombia, countries which have begun their own substantial and innovative programs. Together we hope to encourage a greater international effort to meet the needs of the region. Together we will also intensify our efforts through the International Monetary Fund, the World Bank, and the Inter-American Development Bank to help these governments devise coherent development strategies.

Our collective effort is very impressive, particularly since three of the donor countries are themselves still considered developing nations.

Canada has embarked on a 5-year expanded program for Central America as well as the Caribbean, Canadian assistance will reach more than one-half billion dollars. Canadian tariff treatment currently provides duty-free or preferential access for some 98 percent of all Caribbean Basin exports.

Mexico and Venezuela are providing, among other things, an assured supply of oil and long-term concessional credits valued at over $700 million per year.

Colombia is willing to provide technical assistance of up to $50 million in value, new credit lines up to $10 million, additional financing for balance of payments deficits and other measures to support economic development in the Basin.

While Trinidad and Tobago is not a member of the core group, it has established its own oil facility which is helping its neighbors in the Caribbean reduce the impact of high oil prices on their economies.

CBI PROGRAM

On February 24 the President announced, as our part in this cooperative undertaking, a major and unique program for which proposed legislation has been submitted to Congress. The program includes the following basic elements:

A proposal to eliminate tariffs on all Caribbean Basin products (except textiles) during a period of 12 years.

Tax incentives encouraging U.S. investment in Caribbean Basin countries which seek foreign private investment. We will also be ready to negotiate bilateral investment treaties with interested Basin countries to help them attract private capital needed for development.

An emergency fiscal year 1982 appropriation of $350 million to assist the private sector in countries where foreign exchange is especially scarce.

This combination of initiatives in the trade, aid and investment areas is designed to address the fundamental economic problems of the region with a comprehensive program. They are based on the fact, noted by the President last October at the Cancun Summit in Mexico, that nearly all of the countries that have succeeded in their development over the last 30 years have done so on the basis of market oriented policies and vigorous participation in the international economy. To promote progress over the long term, aid must be complemented by trade and investment.

U.S. INTERESTS

How, specifically, does the Persident's program serve U.S. interests? In several ways:

By opening the opportunity for long-term self-sustaining growth, the people of the Caribbean Basin can take hope in a future with Western values;

By enhancing the prospects for economic development, the plan gives firm support to the preservation and development of democratic institutions as the best way to achieve change in peace.

By strengthening regional cooperation and the principle of burden sharing, through coordination with Mexico, Canada, Venezuela, Colombia and with the multilateral institutions and with self help measures by recipient nations;

By alleviating the root causes of human misery which have stimulated a major and sustained flow of people from the Caribbean Basin into the United States;

By protecting our strategic and economic interests by promoting stable neighbors friendly to the United States.

IN CONCLUSION

Recently the *Washington Post* ended a long story about countries in the Caribbean Basin by reporting that many in the United States have only the barest knowledge of this area so near to us. It remains to be seen, the paper reported, whether the United States can remain constructively engaged in this region over a long period of time.

In fact, this is what the President is asking the Congress to undertake—a long-term commitment to help the small, fragile countries of the Caribbean Basin. His plan was worked out in a year of close consultations with them and their stronger neighbors who already have made the commitment to do their part. Together we understand what needs to be done. With the support of the Congress the United States can act to protect its long-term interests and those of the countries involved in this area so close at hand.

Senator KASSEBAUM. Thank you, very much, Mr. McPherson.

[Mr. McPherson's biographical sketch follows:]

BIOGRAPHICAL SKETCH OF M. PETER MCPHERSON

Before President Reagan appointed him Administrator of the Agency for International Development, Mr. McPherson served as Acting Counsel to the President and General Counsel to the Reagan-Bush Transition.

As a lawyer, Mr. McPherson was a partner and head of the Washington Office of Vorys, Sater, Seymour and Pease, a prominent Ohio based law firm. While he specialized in international and corporate tax matters, he also included a number of universities among his clients.

The AID Administrator is not new to government. He has served as Special Assistant to President Ford and assisted in the selection of presidential appointees, including ambassadors, judges, and other high-level officials. Earlier, he was a tax law specialist at the Internal Revenue Service, working in the international corporate tax area.

Before becoming a lawyer, Mr. McPherson was a Peace Corps Volunteer, serving in Peru. There he worked first as coordinator of the other Peace Corps volunteers in the School-Feeding Program, and later in AID's Private Enterprise Office in Lima, Peru. He also worked with individual credit unions and the Peruvian Credit Union Federation.

His Board Memberships include the following:

Member of Presidentially Appointed Board for International Food and Agricultural Development (BIFAD) from 1977 to 1980. BIFAD has oversight role for AID expenditures for agriculture research, training and extension.

Member of the Joint Committee on Agriculture Development and Chairman of the Latin American Work Group of the Committee, a subdivision of BIFAD.

Mr. McPherson, 40, is a native of Grand Rapids, Michigan. He is now a resident of Chevy Chase, Maryland, where he lives with his wife, the former Natalie Glaser, and his two sons, Michael David, 16, and Donald Bruce, 10.

STATEMENT OF HON. M. PETER McPHERSON, ADMINISTRATOR, AGENCY FOR INTERNATIONAL DEVELOPMENT

Mr. McPHERSON. Thank you. I submit my formal statement for the record and will be very brief with my comments.

Our economic assistance request is part of the whole package. It is an effort to provide assistance for balance-of-payments support, principally for short-term relief, while the other parts of this package—trade and investment—have a chance to take effect.

We are talking about a $350 million assistance program for the Caribbean Basin countries to permit allocation of credit for private sector purchases of raw materials, intermediary goods, spare parts, and certain agricultural commodities, such as fertilizer. We believe that this balance-of-payments private sector support is critical to keep the factories and firms operating, to keep up employment, and, among other things, to keep the exports of these countries going, so that they can earn hard currencies.

This short-term infusion is in addition to a $475 million program, which the Congress approved last year for use in fiscal year 1982 for the Caribbean Basin countries. This amount includes development assistance programs in areas such as health, agriculture, and training, as well as Public Law 480 and ESF [Economic Support Fund] assistance. It is basically a self-help oriented package. It is also in the further context of a fiscal year 1983 request of $664 million of economic assistance for this area of the world.

The central thrust of the economic assistance portion of this package is to complement the other trade and investment parts of the program and to assist in meeting the short-term needs of the region.

Thank you.

[Mr. McPherson's prepared statement follows:]

PREPARED STATEMENT OF HON. M. PETER MCPHERSON

Mr. Chairman and members of the Committee, it is a pleasure to be here today to discuss AID and IDCA's involvement in the Caribbean Basin Initiative. The CBI exemplifies the President's commitment to economic development. In announcing this initiative at the Organization of American States on February 24, President Reagan said that "we must help because the people of the Caribbean and Central America are in a fundamental sense fellow Americans. Freedom is our common destiny. And freedom cannot survive if our neighbors live in misery and oppression."

Mr. Chairman, as you know, the CBI is in integrated package of trade, investment, and aid measures designed to assist the countries of the Basin in coping with an unfavorable international economic environment and in implementing more effective economic policies that stimulate private investment and employment in directly productive activities. AID has played and will continue to play a major role in planning the trade and investment measures and implementing the aid component of the CBI. We will also assist Caribbean Basin countries in maximizing opportunities which will be made available by the trade and investment components.

Through complementary efforts in trade, investment and aid, we will assist countries in the Basin to resolve their short- and long-term financial problems, contribute to a revitalization of their private sectors and support the adoption of a more positive set of government economic policies. These actions will lay the groundwork for sustained and broadly-based economic growth and will provide solutions to principal development problems.

The major objective of the aid component of the CBI will be to assist the countries of the Basin in overcoming their external debt and internal economic disequilibria over the next few years through sound stabilization and recovery programs. This requires large and immediate infusions of foreign exchange for balance-of-payments support. It is primarily to this need that an additional $350 million of Economic Support Fund (ESF) assistance requested for fiscal year 1982—as well as the $140 million currently programmed—is directed. These new resources will substantially increase total U.S. aid to the Caribbean Basin; however, our resources alone cannot bring about the degree of recovery needed to contribute to a relaxation of the social and political tensions now threatening U.S. interests in the Caribbean Basin. Our programs are part of a larger package of assistance which includes resources made available by other donors, including Canada, Mexico, Venezuela, and Columbia, plus the multilateral institutions such as the International Monetary Fund, World Bank, Inter-American Development Bank, and other assistance agencies.

United States participation in this stabilization and recovery effort is especially important for strengthening domestic as well as foreign private-sector confidence. This is crucial if the countries of the Caribbean Basin are to obtain other external resources in the form of commercial bank lending, suppliers' credits and direct foreign investment. An improved climate of confidence will also slow and ultimately reverse the flight of domestic capital abroad.

AID plays and will continue to play an important role in assisting Caribbean Basin countries to design programs that permit efficient use of foreign exchange and to utilize local-currency generations in accordance with development and economic needs. ESF assistance will be used primarily to encourage the allocation of resources toward private-sector imports of raw materials and intermediate goods, thus facilitating domestic production and employment without a further deterioration in the balance of payments. At the same time, we will be discussing with policy makers in the Caribbean Basin countries themselves and with other donors, including the International Monetary Fund and the World Bank, possible reform measures to ensure that ESF and other external assistance is utilized effectively so as to have the greatest possible impact on increased production and employment generation.

While additional ESF resources will permit AID to focus increased attention on stabilization and recovery over the short term, increased levels of Development Assistance will enable us to continue working toward our principal long-range objective in the Caribbean Basin—the establishment of self-sustaining and broadly-based growth within a democratic framework. Our Development Assistance program for the Caribbean Basin in fiscal year 1982 will total $211 million, compared with $167 million in fiscal year 1981. Our fiscal year 1983 request is for $218 million. These resources will support new and ongoing programs in agriculture, rural development, nutrition, population planning, health, education, human resource development and other activities. Particular emphasis will be given to technology transfer, institutional development and training.

Policy and other reforms, as well as additional resources for key development projects assisted by AID and other donors, will be supported by Public Law 480 assistance. Programmed Public Law 480 resources for the Caribbean Basin countries total $123 million in fiscal year 1982, and $121 million is requested for fiscal year 1983. These resources will provide additional balance-of-payments support for the Caribbean Basin countries, while the local-currency generations will help finance development activities. At the same time, key foodstuffs will help countries overcome food deficits without creating disincentives to local production.

The trade and foreign investment components of the CBI are intended to have a long-range impact. Even in the short run, however, they will assist by eliminating duties on sugar imports up to specified ceilings. The identification of new export opportunities in the U.S. market and construction of the physical plants and supporting infrastructure needed to supply this market may take two or more years. This is illustrated by the case of Jamaica where the government is strongly committed to the type of development strategy this Administration believes is necessary to achieve sustained economic growth.

There are many opportunities available for AID to facilitate new domestic and foreign investment oriented to both external and local markets. In the less developed countries of the English-speaking Caribbean, for example, our proposed new fiscal year 1983 projects include a sector structural adjustment program to support the identification and implementation of needed policy changes in the productive sectors of the economy. Other projects include the second stage of an agricultural research project to improve small-farmer productivity, a vocational skills development program to provide the human resources needed by a growing industrial sector, and an interisland shipping and marketing project with private sector involvement to provide markets for increased agricultural production in the Eastern Caribbean, to name a few.

Increasingly, we are emphasizing administrative and managerial training to improve the efficiency of both the public and private sectors. In fiscal 1983 we will initiate training projects in Jamaica and the Dominican Republic, and the expanded LAC regional training initiative will be continued. In Haiti, a new project will assist the government in implementing policy and administrative reforms. AID will also continue to support training for other segments of the labor force. In addition, a work force development project will be implemented in fiscal year 1983 in Panama, and a basic skills training program in Jamaica will receive additional support.

In agriculture, we will be looking for more opportunities to support crop diversification and agribusiness enterprises. New projects in fiscal year 1983 include a Central America regional package to support research on promising nontraditional export crops and a loan fund to encourage production and export of these crops by the private sectors of these countries.

AID will also be supporting increased private sector development in industry and related sectors. Projects to be initiated in fiscal year 1982 include a small industry loan in the Dominican Republic, an export credit loan to Costa Rica, and a regional private-sector promotion fund in Central America.

AID's private sector thrust also focuses on selected Caribbean Basin countries. Through the new Bureau for Privte Enterprise (PRE), AID will provide technical assistance: (1) to host country governments, providing policy guidance and, where required and requested, recommending changes to improve the investment "climate" of the host country; (2) to indigenous private enterprises, to strengthen their managerial, financial, marketing and/or technical skills;

and (3) to host country institutions, to develop the financial infrastructure required to support a growing private sector. AID will provide the assistance needed to bring together investors, both from the United States and Caribbean Basin countries, who are interested in establishing business ventures in the Basin. To support these efforts, in conjunction with commercial banks and/or other financial institutions, AID will provide financing for the private enterprises identified, either by direct loan, through an intermediate financial institution or in a co-financing arrangement with another financial institution.

Another resource available to the U.S. Government, through IDCA, is the Trade and Development program which facilitates the undertaking of feasibility studies while enhancing opportunities for U.S. firms to benefit from any new investments that might be generated by these studies. Also under IDCA is the Overseas Private Investment Corporation, whose investment promotion program likewise can facilitate additional U.S. investment in the Caribbean Basin.

In summary, AID has both a short-run and a long-term role to play in implementing the Caribbean Basin Initiative. In the short run, we will be cooperating with international agencies and bilateral donors in assisting Caribbean Basin countries to overcome their balance-of-payments problems and to design and implement economic stabilization and recovery programs based on policies that stimulate productive activities and avoid the reappearance of serious fiscal and balance-of-payments disequilibria. We will work with Caribbean Basin countries to find the most efficient possible ways to use ESF resources to provide foreign exchange for key imports of raw materials and intermediate goods by the private sector.

AID also has an important role to play in working with the countries of the Basin to ensure that local-currency generations from ESF resources are used primarily to support the short-term local currency credit needs of the private sector, while from Public Law 480 resources will support public- and private-sector development activities with longer-term payoffs.

Development, we recognize, is a long-term process. It will take several years before the benefits of the trade and investment components of the CBI have a significant impact. Meanwhile, complementary Development Assistance activities are needed now to enable public- and private-sector managers and administrators to take maximum advantage of these opportunities and to help provide the agricultural, industrial, and export credit that will be required. Other investments in human resources and in such activities as agricultural research have payoff periods that are even longer. We know that the rates of return to these investments are high, and we will continue to support them.

Senator KASSEBAUM. In the absence of the chairman, I will lead off with a couple of questions.

First, I would like to join both the chairman and Senator Pell in speaking to the positive side of the approach that the President has taken regarding the CBI. But I would like to play devil's advocate a bit with some questions that I think are important for us to think through as we analyze this initiative and what we hope it will accomplish.

I would like to ask, why there has not been any mention of the Peace Corps and similar programs and the benefits that those programs have had in what I believe has been a very positive one-to-one relationship, through teachers, doctors, and businessmen.

Mr. MCPHERSON. Speaking as a former Peace Corps volunteer, I am interested in your question. In fact, the Peace Corps has been very interested and involved in attempting to help out here. It is giving special emphasis to the Caribbean Basin region at this time and is participating in the process of developing a coordinated program.

Specifically, they are considering activating programs in a couple of new countries, Haiti and Panama, where they currently are not involved. There are some 800 Peace Corps volunteers in the CBI countries. They are in virtually all of the countries at this time. There are a few exceptions. Panama and Haiti are two such exceptions, and El Salvador is a third. There are no longer volunteers in El Salvador.

The Peace Corps is a part of the program which can be very helpful and important. It adds a very constructive American presence to the region in my judgment.

Senator KASSEBAUM. It seems to me that it helps build up a structure there that is necessary. if we are to be able to even fully realize the benefits of the economic aid and trade benefits that we are extending.

Ambassador BROCK. We very much agree with that.

Senator KASSEBAUM. Perhaps, a good example is. I would think back to the high degree of U.S. investment that we had in Cuba, before Castro. It certainly did not do a great deal to prevent the takeover of Cuba by the Communists. How would you analyze that in the perspective of what did happen in Cuba and our business investments that were there?

Ambassador BROCK. I think that one of the things that we have looked at most carefully, Senator, is the history of what has been done before, and why it has not worked.

The wandering or limited attention span that the Government has given to the region, one of the fundamental underlying principles of this program is, it is a long-term commitment. The free trade zone is 12 years in duration. So, it does not matter who the administration is, that is a contract that they have with us so that they can sell their products.

Our hope is that we will be very different in approach from that of 2 to 50 years ago, where very large U.S. investors invested sizable quantities and were absentee landlords in effect. What we hope to do is to achieve a growth that is domestically based where they can control their own future, establish their own resource base, their own productivity base, and build their own economies as they see fit, not as we predetermine.

A very limited part of this bill will be for U.S. investors. We hope to draw investors from around the world. There has been cooperation that we have achieved from Venezuela. Canada, Mexico, and Colombia, and we are also seeking cooperation from European countries. The program simply will not work unless it is based upon what they want, and they must be allowed primarily to do their design and to achieve their own goals as they see fit.

Senator KASSEBAUM. Have you analyzed this in relationship to the Alliance for Progress, which we launched in the 1960's with a considerable investment?

Ambassador BROCK. The problem with the Alliance for Progress is we did not follow up. Our attention was diverted by other problems around the world, such as Southeast Asia, and domestic difficulties.

I think again, that argues for a very long-term commitment that will go beyond any one administration, any one Congress, but through a period of time that will allow them the opportunity for a real placing of deep roots to make this have a lasting effect.

The Alliance for Progress was fundamentally an aid based program. What we have tried to create is a program that is based more on the development of an indigenous private sector, middle management people, highly skilled working people, so that they can develop the institutional means for preserving political pluralism.

Senator **Kassebaum**. What response, or offer of contribution, have we received from the neighboring countries there—countries that do have a more prosperous governmental structure, such as Venezuela, Mexico or other neighbors in the Western Hemisphere such as Canada?

Ambassador **Brock**. Quite a bit. Canada has more than doubled its aid contribution to the region in the last several months. Mexico and Venezuela already have a very forthcoming program in their oil facility, which provides about $700 million in benefits and concessional long-term, very low interest rate loans for development purposes, where they rebate 30 percent of the total price paid for oil for those development purposes.

Colombia, which is a developing country itself, has been remarkably forthcoming. Willing to open up its markets, to buy products, to provide technical support. All of these participants each is bringing its own area of strength. I think that the combination can be very synergistic.

Senator **Kassebaum**. Thank you, Mr. Chairman.

Senator **Percy** [presiding]. Thank you, very much.

Senator Zorinsky, I understand, has an opening statement and must leave early. Senator Glenn, I would like to call on you next, but would you mind yielding to Senator Zorinsky at this point?

Senator **Glenn**. Of course, I will yield.

Senator **Zorinsky**. Thank you, Senator Glenn. And thank you, Mr. Chairman.

Mr. Chairman, I want to voice my skepticism about the Caribbean Basin Initiative and outline the reasons for that skepticism.

While the CBI includes trade and investment components, I am going to focus my remarks on the economic assistance aspects which fall within the jurisdiction of this committee.

At the outset, while I recognize that assistance programs are necessary for countries such as Costa Rica and Jamaica under this plan, I question the inclusion of El Salvador in a Caribbean Initiative for some very substantial reasons, one of which is geography. El Salvador is not a Caribbean country, not one inch of El Salvadoran territory borders on the Caribbean. Despite that fact and despite the fact that El Salvador's population makes up only about 11.5 percent of the total in the Caribbean Basin, as defined by the administration, almost 36 percent of the $350 million economic supplemental is targeted for El Salvador. Only $10 million of the $350 million is designated for the states of the eastern Caribbean who need assistance for infrastructure development. The proportionality of this proposal would make no sense, even if the inclusion of El Salvador did.

But there are other more important reasons why El Salvador should be treated as a separate case. Many in the Congress and the country at large see the Caribbean Initiative, rightly or wrongly, as little more than a cover for increased assistance to El Salvador. Pushing for El Salvador's inclusion in such a climate of controversy may doom the entire program altogether.

Moreover, the United States is inching if not skating into an ever-larger financial commitment to that country. We must avoid the temptation to create a shell game in which we guess where the money is for El Salvador.

Millions in the regular authorized assistance, millions more in the Caribbean Initiative, a few reprogramings, a few leases, and some emergency drawdowns all add up to a fine kettle of fish in that particular country. In El Salvador, a war is raging. The revolutionaries are destroying the country's economic infrastructure, just as we are trying to rebuild it. Local money is withdrawn at a faster rate than our money can be poured in. Every conceivable factor isolates El Salvador as a separate case.

Prudence argues, indeed dictates, that the Congress should put all of the piles for El Salvador together in one heap and take a close look at the magnitude of the U.S. commitment and where it is that we are going.

Consequently, I want to announce that I will find it exceedingly difficult to support a CBI which includes El Salvador, and I will move to separate those funds when the committee acts on this legislation. The administration has already separated from CBI the $60 million in military assistance, most of which is destined for El Salvador.

I suggest that we go one step further and separate all aid to El Salvador, focus upon it, and attempt to achieve a clear consensus on our policy toward that troubled nation.

I wish I could say that my concerns with CBI end there. They do not. The administration has suggested that we provide the Government of Haiti with an additional $5 million in assistance under the supplemental. Year after year, the United States pours our taxpayers' hard-earned dollars into Haiti, where government corruption and mismanagement leave Haiti the poorest nation in the Hemisphere.

By the end of this year, the United States will have spent about $100 million in Haiti just since 1980. In good conscience, I cannot support the additional $35 million that the administration is asking for Haiti in 1983 and the $5 million requested under the CBI supplemental is just insult added to injury.

I would support some form of contribution to that country through private voluntary organizations to assure a reliable dissemination of the money to the people who need it, but not to the Government of Haiti.

I am no less concerned than anyone else about the continuing problems in Haiti and the Haitian refugees. But we have spent $100 million on the problems and the problems have only grown worse. To continue to subsidize a Government in Haiti, best known for corruption and repression, is sheer madness, particularly in a time of fiscal hardship here at home.

For example, $5 million spent here in the United States in the women, infant, and children's program would enable 10,000 expectant mothers to receive proper nutrition, thereby protecting them and their newly born. Thirty-five million dollars allocated to the school lunch program could feed 400,000 American school-aged children. We cannot blind ourselves to such tradeoffs; the choices are hard. And I joined in supporting many of this administration's initiatives to cut waste and trim back social programs, but I did not vote to cut waste here at home only to have the money squandered abroad.

The case of Haiti points to a larger problem, generally, with CBI. The economic problems in the Caribbean are undeniable. So, too, are our own. In a time of increasing unemployment, enormous Federal deficits, and declining support for Federal social programs, can we expect the American people to shoulder the additional burden of a Caribbean Initiative?

I believe the answer is no, unless the Congress is able to scale back the scope of this program, eliminating waste, such as the proposal for Haiti, and separating out the El Salvador account for a thorough examination, and unless the administration can provide a clear and compelling rationale for this program in terms of needs and opportunities foregone here at home.

Finally, Mr. Chairman, I want to say a few words about the impact of the CBI on Puerto Rico, the Virgin Islands, and the individual State of the Union. We should exercise all caution to make certain that jobs are not affected, that industry does not suffer, and insure that we are not hurting our own people for the sake of improving the economies of our neighbors. If we cannot succeed in making a showcase of Puerto Rico and the Virgin Islands, the home of U.S. citizens, our promises for the rest of the region will ring hollow indeed.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much, Senator Zorinsky.

Ambassador BROCK. Mr. Chairman, do you want us to respond to that?

The CHAIRMAN. Yes; I will yield to you for that purpose, but as the ranking minority member of the Subcommittee on the Western Hemisphere, I felt it important that Senator Zorinsky be able to give his statement before he leaves. I know how strongly he feels about this.

However, I would like to say that I think it would be wrong for us to exclude El Salvador. It would discriminate against a country that is desperate, with the densest population and the greatest problems. They should not be discriminated against, and we should not be so technical as to say that the Caribbean Basin deals only with those whose shores are on the Caribbean. El Salvador is the only Central American country that does not have a Caribbean coast. With whom else does it fit if not Central America and the Caribbean.

We are dealing with a region that is extraordinarily important to us. With respect to Haiti, I can only say that as recently as last night, I conferred at length with the former United Nations Director of Refugees, Assadrian Aga Khan. He pointed out that until such time as there is economic hope for the people in Haiti there will be refugees. Now is our chance to really reach the people of Haiti and countries like it.

It is our job to see that these programs really get to the people. We cannot take responsibility for all of the actions of the government, but if we abandon those people, we will be flooded with refugees in this country. He said that is the problem. You have to go to the heart of the problem. You cannot just put them in detention camps when they flood the shores. You have to somehow reverse it and offer hope to them to stay at home.

So, I think to abandon them would be wrong. We will let the Governor of Puerto Rico, with whom I have met on this issue, speak for himself when he testifies today. But from what he said to me I can anticipate that many of his concerns have already been accommodated in the CBI and he is pleased with the progress that is being made. I think that he will testify to that effect, though he will also point out whatever problems he perceives.

I would like, if you would not mind, Senator Glenn, then I will yield directly to you. I would like first to have any response and then, obviously, if you would like to come back, Senator Zorinsky, you certainly can.

I will hold off my questions until we have covered this issue.

Ambassador **Brock**. Well, first, I find it remarkable, Senator, that you raise the issue of which coast of Central America El Salvador is on. Maybe the only thing we can be accused of is putting a wrong label on this. If you do not like the Caribbean Basin, we did not mean that the water had to touch all of these countries, we simply were talking about a general description of the area.

When you say that, rightly or wrongly, this is viewed by some as being a cover, let me assure you that that is wrong. There is no such intention. The question of Haiti has been covered adequately by the chairman of the committee. Perhaps Senator, the Haitian refugee problem has not had the impact on you that it might have had on others. But there are a lot of people in this country that see what is happening because we did not take action, such as this, a long time ago, to develop a more effective program.

You were focusing on the aid component. I frankly said, I think in the first presentation that we made of this some time ago, that probably not any one component part of this program would pass the Congress on its own merit and separate from the whole. I view this almost, as the three legs of a stool. And if you take any one of them away, it is going to be a very unstable stool. This is a very small amount of money to deal with what is a growing problem.

The difficulty we see, is that if we do not compliment the self-help initiative, the investment initiatives, the trade initiatives, with enough to cover the balance of payments crisis, the inability to even buy spare parts to keep their plants operating, which is what this aid money is designed to do, that they cannot begin the recovery process.

We can discuss Puerto Rico later, but you made one reference to jobs here at home and an extended series of comments on what this money could do in the United States. You could make identically the same arguments Senator, for an aircraft carrier, a B–1 bomber, or anything else that we spend money for. The fact is that if we do not view this as an investment, over a period of years, and both access to the U.S. market, as well as the concessional aid part, then we are taking the wrong attitude.

It is not a short-term bailout, it is not intended to be a short-term bailout. We are trying to put in place, the fundamental elements necessary to allow for long term economic growth and on that basis, hopefully some of these countries, particularly countries like Haiti, that are the poorest of all in the area, will have the opportunity to build a political system with a pluralistic approach, free labor unions, free management associations, all of the ingredients, political parties, that would allow them to maintain their own independence and to choose their own course of future development.

I simply think that it is too much obvious in our national interest that these countries do make progress. You want to be entirely selfish about it, they pose a market opportunity for us. But more important than that, these are good people, they are friends. And I cannot, for the life of me, see how you can argue that we should threaten the entire program, the entire program for better than 20 countries because of your disagreement with a particular program for a particular country which is absolutely minimal, in the case of Haiti.

That would to me, be an unmitigated tragedy, to see the Congress take bits and pieces of this thing and so eliminate the validity of the whole.

The CHAIRMAN. Does anyone else care to comment, then we will come back to Senator Zorinsky.

Mr. McPHERSON. Mr. Chairman, I would make one quick comment about Haiti. We have been very interested in what progress was or was not occurring in Haiti. We have been watching the situation very carefully and have been in close consultation with congressional committees.

As you know, about half of our program in Haiti is administered by PVOs [private and voluntary organizations]. This is a way of assuring that the assistance gets to the people who need it the most. There have been some interesting and rather positive changes in Haiti that we will be watching closely, as the months go on.

There have been changes in some key personnel, for example, a new president of the Central Bank and a new finance minister, who appear to be very good men. The words, the reports, and the signs, that we are receiving concerning the IMF negotiations are very good. It is important that those negotiations continue and that the kinds of things that the IMF is talking about come to fruition.

These are signs which suggest that there may well be the kind of economic progress in times ahead that are so necessary in Haiti. I think that we would all do well to watch that country carefully.

The CHAIRMAN. Senator Zorinsky, if I could supplement what Mr. McPherson had to say, I consider this problem as you do, so serious. I spent four hours Saturday morning with Rev. Jesse Jackson in Chicago. We spent a lot of time talking about it. He has made five trips to the detention camps. He knows the problem intimately.

I felt it important that he get the input and give his input into the administration, so I arranged for him to see, yesterday, Elliot Abrams, the assistant secretary for human rights. And last night, he had a one-on-one meeting with the Vice President of the United States, to give him his input.

The administration has really reached out to try to listen to those who are familiar with that problem. It is a tough problem. You have pointed out a very difficult problem and I can assure you that we join with you in recognizing how tough it is. I hope we can deal with it in the concept of CBI and again, not exclude the people of Haiti from this program.

Would you care to respond?

Senator ZORINSKY. Yes, Mr. Chairman. Obviously, people in government oftentimes, indeed, too many times, just hear what they want to hear. I do not want to mislead anybody into believing that I am opposed to the CBI program. I am not opposed.

I am not trying to torpedo the CBI, in fact, I am not opposed, altogether with respect to economic aid to El Salvador. I am saying to anybody who says we would be discriminating against El Salvador by excluding them from the Caribbean Initiative, that we are discriminating against the Caribbean Initiative by including El Salvador.

If someone has picked up a paper or watched television lately, and not heard the name El Salvador, I think that would be a unique case. There is something happening there that is not happening anywhere else, other than in El Salvador. I believe that it has had a high enough profile through the news media that we ought to look at it as a separate case. It is important enough to be a separate case.

It has been said today that it is very important for the CBI to succeed, and I agree with that. I want to see it succeed, but I am concerned with respect to the inclusion of El Salvador with the Caribbean Initiative. Certainly that would be a wrong signal to the American people as to what we are attempting to do in that area.

Mr. McPherson commented to me about improvements being shown by changes in personnel in Haiti. As a businessman, I used to change personnel when I caught them stealing. Maybe the reason for personnel changes is that there were some transgressions committed in the past. I went through this same scenario during the Carter administration. People were sitting at that very same table telling me that they had changed personnel in Haiti and now things were going to be different.

I am concerned about the Haitian refugees too. But the people of America work hard to pay their tax dollars. I just came back from my State where there are farm foreclosures and farm sales. People are very disturbed. If there is not a farm depression going on back there, it will have to do until a better one comes along.

Then you see that we have given $100 million to Haiti since 1980. I sat before through this same scenario, and that government could not give an account of where the dollars were and would not even let our auditors look to see what happened to the taxpayers dollars and how they were distributed down there.

In my statement I said that I would support the dissemination of money through private organizations. You know, I think that maybe we ought to encourage the Government of Haiti to be a little more honest with this country. They might allow us to perform audits, if we made some noise about withholding these dollars for them.

I do not want anybody to get the wrong impression, or think that I am opposed to the CBI. I support it. I think that it is long overdue. I believe that the Caribbean is our front door and we need friends in that area. But I have been a businessman long enough to know, number one, that you cannot buy friends. You may buy them today, but tomorrow, you will lose them. Second, when there is a corrupt government you do not compliment it for being corrupt by giving it more money to be corrupt with.

The CHAIRMAN. Thank you very much, Senator Zorinsky. Senator Glenn, I will hold my questions back until you go ahead.

Senator GLENN. Thank you, Mr. Chairman. Gentlemen, the centerpiece for this program is the one-way free trade proposal. And I have some questions about that because, as I understand it, some 87 percent of the products from the region are already afforded very liberal entry and agricultural commodities account for about half of the region's export earnings.

There are in fact, under the Generalized System of Preferences, some 2,900 products that these countries are currently eligible to send into the United States virtually duty free. They can take advantage of Section 806 and 807 of the U.S. Tariff Schedule, which provides no duty need be paid on U.S.-made components of goods shipped to the United States. It is what is used by the border industries now for trade back and forth.

So, how do you comment on this as to what big advantage this is going to be? We have touted this open trade as the center piece of the program and yet it would appear that we have for most of the products from the region, open trade right now. So what is the new advantage?

Ambassador BROCK. First of all, the GSP program expires in 1985, Senator. There has been an increasing level of concern expressed here in Congress with the continuation of that program. If it is continued at all, and I pray that it will be because it is a very important program, but if it is, it may be severely changed or constrained.

So, there is an insecurity in that, you would understand, full well, that if a business person from Brazil or Colombia wanted to make an investment in Jamaica, he would not make it on a 1-year basis or a 2-year basis. He would make it for a 5, 10, 15, or 20 year basis. Unless there is an assurance of liberal access to the U.S. market for an extended period of time, they will not make the investment.

The fact is that the people who have taken advantage of GSP are Hong Kong, Korea, and Taiwan, the major newly industrialized countries. Also, countries like Brazil have taken advantage of it.

These very small countries simply have not had the continuity of opportunity that would allow them to be a magnet for investment. If you were just talking about coffee, sure they have a 100-percent access, now. What we are trying to do is provide them with a magnet circumstance which will allow them to develop an economic base over an extended period of time.

Senator GLENN. But these programs, the GSP, has been in effect for a long time. Why have they not taken advantage of this? Even if we have the new Caribbean Basin Initiative extended, if they have not taken advantage of it in the past, why would they be expected to do so under this new aegis?

Ambassador BROCK. They have taken a limited advantage, but they are so small that they have not had the opportunity to take the advantage that the bigger countries have.

Let me put it this way, GSP is applied first, country by country, so that the country has to be designated. Then the country may send application product by product. Under the GSP rules, if they achieve level of import penetration in terms of percentage of total imports, or if they reach a certain dollar figure there, then they are excluded from GSP.

Always there is the threat that they are going to lose the access. You cannot draw into a country real investment for a 10 or 15 year period, if there is a possibility that it might lose that market access in 2 years.

Senator GLENN. For how long has GSP been in existence?

Ambassador BROCK. This is the 10th year.

Senator GLENN. If they have not been able to operate under it, I do not see why they should be able to operate under CBI?

Ambassador **Brock**. Oh, but they have. I think that you are missing my point. To the extent that they were able to take advantage of it they have done so. Eighty-seven percent of their products do come in duty free. What they have not been able to do is to develop a new industrial base because there was not the long-term security.

The process is subject to annual review by the Executive, and is subject to change by the Congress. So, there was not the long-term commitment that would allow them to draw in long-term investors. What we are trying to do is create a new economic opportunity.

Senator **Glenn**. Let me go to another subject before my time runs out.

I am questioning too, whether we are taking away with one hand and giving with another. Let me tell you what I mean.

Some critics have expressed great concern that the administration is requesting additional bi-lateral funds for the region when it is planning to straight line or reduce U.S. contributions to the World Bank and the Inter-American Development Bank. Currently, these two institutions are annually making new lending commitments in the region, of between $800 million and $1 billion, far above anything that we are proposing here.

And our U.S. share of this lending, in the guarantees that are paid in, range from a high of 40 percent for the IDB soft window to around 22 percent of World Bank capital. And those funds, as I understand it, are usually averaged out with a leverage of about 1 to 3 for everything that we put into that area. Thus it would appear that we are taking away with one hand from the international institutions and we are now giving with the CBI.

How do you comment to that?

Mr. **Leland**. I might try that, Senator. Basically, this program is designed to be a supplemental appropriation and the requested $350 million would be quick disbursing. The need is urgent. I think that everybody here has already testified to that.

The new replenishments for the Bank that we are talking about are sometime in the future. Part of the proposal with this plan is that we go to the major allies that support us in the Banks and likewise, get their support on the bi-lateral program, to get more aid into this area.

As far as the effect on the region of what our contributions to the Bank are going to be, that becomes somewhat questionable. These countries are really the very poor countries in the region and are not the ones that are going to be cut out in our proposal for reducing funds to the Bank.

There may be what is called maturation. There may be more of combined hard lending and soft lending as countries mature. Other counties, the much more advanced countries, not the ones that are part of this program, will be graduated from the Bank. But the overall resources left to these poorer countries should remain the same.

Senator **Glenn**. Do you have figures on that to show that that will actually happen? Because if it will not happen, if we will not graduate them from one financing institution to another, then we are refusing to support them in one area and giving money back in another channel and acting as though we have made progress. That does not make sense.

Ambassador **Brock**. But Senator, did not Congress cut our request for these multilateral institutions last year?

Senator GLENN. I think that the administration came up with a lower request. I do not know who cut what.

Mr. LELAND. To be correct, there is no lower request at this particular moment. You are both correct. And Ambassador Brock is correct that in the outyear figures, for what we are planning for future replenishments, there are lower amounts. For instance, for the World Bank, there are lower overall amounts, but not lower amounts for this region.

There is a substantial cut, because there are certain countries which are being graduated and there are certain other countries, India primarily, that we feel have access to private capital markets. So, we have analyzed the situation and tried to come up with a proposal by consultations with Congress—one that we feel is justifiable and is of a sufficient amount.

On the question on the IDB, the figure is for a replenishment that is some years ahead. There has been no request of Congress yet, no negotiation of any agreement. Again, the concept was that we have to cut back, but we also have to see what the results of the Caribbean Basin program are first. We may want to request other funds, at some point, depending upon what bilateral assistance is forthcoming from our allies.

If our allies say, "We prefer not to do it bilaterally, but we want to do it in such and such a way in terms of burden sharing," we can reexamine our number in the renegotiation. There is nothing before the Congress on that at this time.

Senator GLENN. I guess I should have brought the figures with me this morning. But my understanding is, in the budget assumptions being made on down the road, one of them was cuts in this particular area.

And Congress certainly has not acted on that yet. Now, we are talking about long term planning, what these nations have to plan on and that is what the administration is saying that they are going to request.

Mr. MCPHERSON. Senator, the projections for the International Development Association and the Inter-American Development Bank over the next few years would indeed entail some cuts. It is expected, for example, that in the Inter-American Development Bank there will be a graduation of countries. The countries in question here will continue to receive roughly the same kinds of resources.

Senator GLENN. In the administration's fact sheet on the Caribbean Basin policy, it identifies specifically two causes of economic stagnation, in the basin economies; namely, escalating costs of imported oil, and declining prices for their major exports.

How specifically will the elements of this CBI seek to address these economic problems? Those are basics.

Ambassador BROCK. Well, the aid component deals with the short term cash need in part, hopefully supplemented by the contribution of other countries.

The long term problem is that their economies are not sufficiently diverse, they do not have a broadly based economic platform on which to grow. What we are trying to do is to create that broad base in their economic development hopefully, that would get them off a total dependence upon the commodities.

Senator GLENN. Okay. I can follow up on that later. I see that my time is up, the red light just came on. I will save other questions for the next round.

The CHAIRMAN. Thank you very much, Senator Glenn.

Ambassador Brock, many of our constituents, all of our constituents, I believe, really have a positive attitude but questions are raised, "What impact will this package have on the U.S. economy?" they ask.

Is this a time for us to be able to do something like this when our economy is in trouble? What calculations have you made as to the likely impact of the CBI on the U.S. job market for instance, and for instance, on our balance of payments?

Ambassador BROCK. The short term, first impact would be favorable, as we begin to send more components of plants down there with which they can begin production. The medium term would suggest that as they begin to create a product that they will market in this economy, they are so small, Senator, that we do not see any negative impact.

We do have clear U.S. law available to us if there is any injury to U.S. workers or to U.S. firms that could quickly be applied if that were required. We do not see that as a prospect, again, because these countries are so terribly small and so terribly weak. It will take many years for them to begin to be able to create a market.

For example, today, they are selling less than $800 million worth of products to us, of all types, that are covered by this free trade area. Most of that already is coming in duty free, so there is not much opportunity for any immediate negative impact.

We believe that in 5 years, they would be very fortunate to multiply that by a factor of 3 to 5. That is less than 2 percent of our total imports, not our total market, which is much larger, but just our total imports, it would be two-tenths of 1 percent of our total market.

It just simply cannot, in general terms, create a major difficulty. If there is a specific injury, we have the law available to us to take effect.

The CHAIRMAN. Thank you. Secretary Stoessel, again, overwhelmingly I have had a positive response to this program, but those who have criticized it say, "Well, it is good, but it is too little, too late."

Given the economic problems of this region, how would you respond to that kind of criticism, that it is too little, too late? I suppose you could say better late than never.

Ambassador STOESSEL. Mr. Chairman, I would say that those people to whom you spoke are correct. It is little and it is late. We should have been doing this earlier. We do feel that it is a beginning on the problem which is urgently needed, and we feel that it can have an impact. It is of a long term nature, it is intended as a kind of seed project to get things moving. We feel that it is moving in the right direction.

The CHAIRMAN. Secretary Stoessel, I indicated to Secretary Haig this morning that I would present to you before you leave today on his and your own behalf, this report to you and to Peter McPherson, by the Chicago Association of Commerce and Industry. A proposal to join hands with the Federal Government.

Mr. MCPHERSON. We will follow up on this proposal immediately, Senator.

The **Chairman**. I am sure that you will find it very instructive and helpful. The Chicago Association is the largest metropolitan chamber of commerce in the United States. Its president, Dr. Sam Mitchell, Dr. Clayton Yater—well known to us as president of the Chicago Mercantile Exchange, vice president of the World Trade Division of the Chicago Association and Tom Pollock, World Trade director, on behalf of 6,000 corporations and 12,000 top business executives simply say that we pledge to you to seek investment in the Caribbean Basin. And they want to do so on a ratio goal of $10 of investment for every dollar that AID spent.

This is what we hope from the outset of this program, that aid would be a part of it, and the necessary seed money, but that trade and private investment is the most important part. And here is the pledge of the entire business community of Chicago saying that they want to work with you.

I will be happy to arrange any meetings with you and the Department to get them down. You will find that the toughest, hardest headed American businessmen will be in that group. And we are depressed, very high unemployment, but in the face of that we think that this is so urgent that they are going to put themselves behind it.

What are the mechanisms, Mr. McPherson, by which CBI will promote private sector development in the region? Can you give some specific examples for instance?

Mr. **McPherson**. In Jamaica, we are in the process of setting up what is essentially a venture capital company, primarily focusing on agribusiness. In Jamaica and throughout the Caribbean, we are expanding the efforts of the International Executive Service Corp. This is a group of retired executives who have had a very substantial impact in many countries around the world by consulting and working with local businessmen to help them solve their problems and augment their activity.

We expect to do a great deal of training. We have done a lot of work in Jamaica to provide a small amount of seed investment capital as an incentive to pull in other money. We want to be really quite innovative in this area.

We talked about Haiti a moment ago. Incidentally, the $5 million supplemental ESF request will not go to the Government of Haiti, but rather we anticipate a variety of ways that we can use these resources for the private sector.

Haiti is a place where there would appear to be numerous private sector opportunities.

Mr. **Waldmann**. Senator, I might add that the Department of Commerce has set up a center to provide information and assistance and to work with the business community because we recognize the importance of the private sector to this whole program.

We will be working both with USTR, State and the other relevant agencies to identify projects in these countries and the impediments to investment and trade. So we are taking a very active role. I am glad to hear about the Chicago initiative.

The **Chairman**. Well this initiative embraces full backing and research, promotion, technical assistance, replication. They have gone through it completely. Could we put a value on your estimate of the value of the trade investment and incentives contained in CBI in dollar terms over the 12-year period that you have discussed? What is the additional growth and income that would result in these Caribbean countries?

Do we have any estimate on that?

Ambassador BROCK. That is almost impossible, Senator. We just do not know. So much depends on the steps that they take to complement what we have done. The investment incentive that we have offered, the 10-percent investment tax credit, runs for 5 years. There is no way to calculate what might occur, because so many of the investments will be predicated not on us providing an investment tax credit, but a proper and appropriate entrepreneurial climate in the country.

We do believe that it has long term dramatic opportunities.

The CHAIRMAN. Because Ambassador Brock is leaving in half an hour, I would like to yield the balance of my time back to our other colleagues who are here. Senator Pell, do you have any questions? And let me ask our other witnesses if they are able to stay a little longer.

Ambassador STOESSEL. Yes.

Mr. MCPHERSON. Yes.

The CHAIRMAN. Perhaps we ought to give priority to our urgent questions for Secretary Brock.

Senator PELL. I have no questions for Secretary Brock.

The CHAIRMAN. All right. Would you care to go ahead anyway?

Senator PELL. Joe, why do you not go ahead?

Senator BIDEN. That is all right, you go ahead.

Senator PELL. I would like to ask Mr. McPherson, in connection with the United Nations Environmental Program [UNEP], the program to undertake a Caribbean action plan which would coordinate the environmental planning and pollution controls for the whole basin region, it seems to me to fall right within the whole term of reference of the whole Caribbean Basin Initiative.

The total cost of the United Nations Environmental Plan is projected to be $3 million, that is all, to which the United States is being asked to contribute about 10 percent, or a mere $300,000.

In view of the large amount of money that is proposed to be spent, I am wondering what the plans are of the United States in this regard? Will we participate in this program or not?

Mr. MCPHERSON. No firm decision has been made on that, Senator. We are still considering the matter. I know that you expressed interest in this a few weeks ago. In fact, we are reviewing our whole environmental policy in the next few days and I will be testifying on that matter. I expect that we will give you an answer shortly.

Senator PELL. It would seem to me, in view of the fact, that France has pledged $375,000, Mexico $250,000, Venezuela $230,000, even Belize had pledged $15,000 and in view of the fact that this is obviously like motherhood, that is as far as the program goes, pollution controls, quality of the ocean, quality of the environment, I cannot understand why there would be any hesitation spending this very small amount that has been called for, $300,000, one-tenth of 1 percent of what is being requested for the Caribbean Basin Initiative.

Is the reason because some of these waters wash up on Nicaragua and Cuba and you do not want them to be unpolluted too?

[General laughter.]

Mr. McPHERSON. I am not in a position to comment extensively on it, Senator.

Senator PELL. But I wish you would be, because I addressed this to Secretary Haig and to you, about 4 or 5 weeks ago at the White House. And I would think that several weeks would have given the administration enough time to evolve a view.

Mr. McPHERSON. Let me get back to you with a more detailed answer on the matter. We are still working on it, Senator, and of course I will respond to you directly.

[The information referred to follows:]

Hon. CLAIBORNE PELL,
Committee on Foreign Relations,
Washington, D.C.

DEAR SENATOR PELL: In response to your interest in the Caribbean Action Plan (CAP) and the Caribbean Trust Fund, I wish to emphasize that A.I.D. is strongly supportive of the CAP and the kinds of environmental projects it envisages. Indeed, we have been doing far more on a bilateral basis in this area than what is intended through the CAP. We have at present some $160 million worth of projects in the Caribbean Basin with very direct environmental benefits, covering pretty much the entire range of projects envisaged by the CAP. The attached list exemplifies the extent and scope of our bilateral assistance in this area. That we have been unable so far to contribute to the UNEP-administered activities in the "wider Caribbean" does not therefore connote a substantive difference in goals, but stems from our preference to utilize existing bilateral agreements and relationships. Also, the United States has long been skeptical of the establishment of ad hoc international funds for special purposes.

In view of our support for the substance and nature of the activities envisaged by the CAP, however, I have requested my staff to review the question of whether and how AID funds could be contributed to the CAP in ways that are complementary to our much larger bilateral efforts and do not carry undesirable implications concerning the distribution of benefits to Caribbean countries nor stimulate a trend toward the proliferation of special funds. We shall, of course, inform you and other interested members of Congress of the results of this review as soon as completed, in the very near future.

Sincerely,

M. PETER McPHERSON.

Attachment.

The Bureau for Latin America and the Caribbean of the Agency for International Development has an extensive portfolio of projects which support both the goals and the program priorities of the Caribbean Action Plan (CAP) for the Wider Caribbean. Through FY 1983, AID will have a total of $160,935,000 in bilateral and regional project activities which support the objectives of the CAP as it was defined and concurred in by the countries and territories of the region. These include environmental projects and energy projects with direct environmental implications.

While the bulk of these projects were formulated and are being implemented outside of the organizational rubric of the CAP, there is significant overlap between CAP activities and AID's portfolio, especially in those areas which involve applied research, manpower development, institution building, technology transfer, and field demonstration activities. We see the AID portfolio as assisting the countries of the region to be better prepared to take advantage of the technical and financial resources being made available through CAP.

We do see an important difference between the CAP and the AID activities, however. The former is oriented more toward research and information exchange whereas the AID program has more of a problem-solving focus, with a significant amount of resources designated for field demonstrations of environmental and natural resource management technologies. There is, therefore, some complementarity between the CAP and the AID program, which needs to be considered in any discussion of the interaction between the two. The following list details the AID activities in this area.

Life of project funding

Project and status	*Thousands*
Costa Rica:	
Natural resources conservation (current)	$9, 800
Environmental education I (current)	240
Environmental education II (current)	475
Dominican Republic:	
Natural resources management (current)	10, 800
Energy conservation and resource development (current)	11, 500
Energy policy development (current)	760
Guyana: Alternative energy development (current)	2, 000
Haiti:	
Agroforestry outreach (current)	8, 000
Integrated agriculture development (current)	12, 500
Honduras:	
Natural resources management (current)	15, 000
Forestry development (planned)	20, 000
Environmental education OPG (current)	25
Energy for rural development (current)	6, 000
Jamaica:	
Energy sector assistance (current)	13, 900
Integrated agriculture development (current)	15, 000
Panama:	
Alternative energy sources (current)	825
Watershed management (current)	10, 000
Regional development office/Caribbean: Alternative energy systems (current)	7, 600
ROCAP:	
Fuelwood (current)	7, 500
Watershed management for sustained energy production (planned)	5, 000
PVO production/conservation (planned)	2, 500
LAC Regional: OAS oil spill contingency planning (current)	60
Country Environmental Profiles (current)	400
Total	160, 935, 000

Senator PELL. Those of us who believe in improving the environment consider this to be a very important measure.

Also, I address this next question to Mr. McPherson. A Costa Rican institute, a thing called ICER, engages in literacy programs via radio to inhabitants of Central America, particularly in Costa Rica. The Costa Rican name for it is radiophonic teaching. Are you familiar with this program at all; or not?

Mr. MCPHERSON. I am not.

Senator PELL. Is this the kind of program that would fall within your terms of reference? To bring education and literacy to that part of the world, or is that too nonpolitical?

Mr. MCPHERSON. This would appear to be the kind of program, and I am reacting quickly here, that we would be interested in looking at in our development assistance program.

Our program for the Caribbean Basin countries which has already been appropriated by Congress has a very sizable educational training component. The program which you mentioned is the kind of activity that we need to do.

We are finding frankly, that radio is a very important and fairly cost effective tool.

Senator PELL. This is what I have found in following this program. They have about 25 little stations scattered around 25 different villages and communities. It costs very little money and balances out the leftist propaganda efforts of Radio Venceremos. I would think again, from a cost effective view point, it would be a good place to put some of your funds.

Mr. McPHERSON. Such a program would be funded with development assistance money as opposed to the ESF that we are talking about here. In Costa Rica, we do have a development assistance program. I am not familiar with that particular situation, but it certainly is one that would fall within our general interest.

Senator PELL. Thank you. Perhaps my next question would concern Ambassador Brock. Has the Department of Commerce undertaken careful studies to assess the effect, the impact of the Caribbean Basin Initiative on the economies of individual States?

Here I am thinking particularly of small business and small industry. Let me be specific about what concerns me. We have an exceptionally high rate of unemployment in Rhode Island right now. One of our main industries is the jewelry industry. Are we giving incentives here for somebody to go out into a Caribbean country and manufacture jewelry, which does not require great skill? It is a low wage industry, where there is no minimum wage. If so, there would be no incentive to pay the wages that are even paid now. Will there be an incentive to move that industry down to the Caribbean?

Ambassador BROCK. We have very carefully considered the possibility of a runaway plant circumstance. We have tried very consciously to avoid any possibility of a runaway plant circumstance where you would move an existing operation in the United States out to this part of the world.

We quite honestly are seeking net new investment down there from around the world. But we have tried very consciously to evaluate the potential circumstances that might lead to any conceivable injury. We have looked very carefully at the import sensitive industries of which jewelry is clearly one.

We have analyzed the situation to be sure that an injury does not occur. We believe that at least we have protected against that occurrence.

Senator PELL. Have any actual studies been made by the Department of Commerce on the effects of that?

Mr. WALDMANN. Senator, we have not done a State-by-State analysis, partly because of the reasons Ambassador Brock has mentioned and partly because of the uncertainty of the development that we might see over the next few years.

Senator PELL. Have you done an industry-by-industry study?

Mr. WALDMANN. As the Ambassador said, we have looked at some of the major import sensitive injuries, that is correct.

Senator PELL. Have you done one on the jewelry industry, for example?

Mr. WALDMANN. I do not know what would qualify as a study in these terms. We have looked at the imports. We have looked at the potential imports under the $800 million affected component of the trade which would be entering duty free. And we are, of course, aware of the sensitivities in key industries.

Senator PELL. Would you send me whatever preliminary studies you have for both industries, the jewelry and the machine tool industry.

Mr. WALDMANN. We would be happy to send you whatever we have, Senator.

Senator PELL. Thank you. I believe my next question would be addressed mainly to Secretary Stroessel. Our chairman has compared this proposal to the Marshall plan following World War II. I was in Eastern Europe at the time and my recollection is that the Marshall plan was made available to countries on both sides of the Iron Curtain.

In fact, there was no curtain at that moment, although it was dropping at that time. Czechoslovakia was going to accept this proposal and then the Russians said, "Nyet." And they had to pull back. I wonder if you have given any thought to making this program available not only to our allies but also to our adversaries, to Cuba and to Nicaragua?

That was one of the points of the Marshall plan that made it so strong. It was open to everybody.

The CHAIRMAN. Senator Pell, if you would yield? My statement was that the impact of the program on the countries affected can be comparable. It is not a comparable program. It is not comparable with the AID program because AID is a small part of this program, however, your question is pertinent because I never did address that particular issue.

Ambassador STOESSEL. Senator, I would say that in comment on your question that the overall omnibus initiative, if you will, for the Caribbean Basin, of course, involves other countries, Canada, Mexico, Venezeula, and Colombia. Under the overall concept, taking into account the contributions, no country is automatically excluded. It is up to each of the donor countries to decide how its program will be effectuated, which country will be the recipient of aid and so on.

So, I think that the whole area probably will be covered. In our own case, we would not plan to make money available, for example to Cuba, which is designated as a Communist country and ineligible for aid.

Senator PELL. How about Nicaragua?

Ambassador BROCK. It is up to them, absolutely up to them, Senator.

Senator PELL. Provided they make a quid pro quo for it, if they would leave their neighbors alone, for it. I would think that from a political viewpoint it might be a good idea to offer it to them.

Ambassador BROCK. There is absolutely no desire to exclude any country that would act responsibly and respect the rights of its neighbors.

Senator PELL. Thank you.

Mr. MCPHERSON. Senator, there is and has been a very modest continuation of a program to the Nicaraguan people. Our assistance is provided to private sector groups in Nicaragua and not to the Government.

The future of this program has not been determined finally, but some assistance has been provided, which you might be interested in knowing.

Senator PELL. Thank you.

The CHAIRMAN. Senator Helms is unable to be here today for this hearing. I know that he has on occasion in the past submitted questions for the record, upward of 70 or 80 questions. I know that you will be happy to learn that he has three questions to submit to you for the record on this particular occasion.

Ambassador **Brock.** They are probably very long questions. [General laughter.]

Mr. **McPherson.** They have many sub parts.

The **Chairman.** I am sure that they are all pertinent and we would appreciate your responses. Thank you. Senator Mathias?

Senator **Mathias.** Thank you, Mr. Chairman. I salute President Reagan for addressing the problems of the Caribbean, Central America, and South America.

I think this is an enormously important step. It could be the most important step since the Alliance for Progress and I welcome it. I do think that there are some questions that have to be raised.

On the AID side, I think you are going to have to convince this committee, or at least convince me, that we are not robbing Peter to pay Paul. I am concerned about the impact of this program on the international development institutions.

I am concerned about what this program may do to the Fund for Special Operations. I would like to go into that in some detail. But if the Ambassador is under some pressure of time, I would like also to be persuaded about some questions I have on the trade side.

The admission of Caribbean products duty free which, as I understand, is part of the program is, of course, a commendable desire to give some special attention to the problems of the Caribbean, problems for which I think that we have some responsibility and in which we have a security interest.

We have to be concerned about them as human beings. We have to be concerned about what the Caribbean could ultimately become and how it may ultimately affect the security of the Western Hemisphere. But, if we admit their products, duty free, are we not then becoming guilty of some discriminatory actions against other countries, equally poor, countries in Africa and Asia? Are we not departing from the most favored nation [MFN] principle, and implying that we are interested maybe not only interested, but more interested in poor countries that are near our borders, which pose a threat of illegal immigration to the United States?

In other words, there may be the impression that we have some ulterior motive here. If we take these trade steps that bind the Caribbean nations more tightly to us economically, are we not adding greater distance to other countries that have similar problems, and in which, in the long comprehensive view of history, we may have very real national interests in, even though they are not geographically as close to us?

Ambassador **Brock.** Senator, that is an absolutely fair and valid question to which we have given a lot of thought. I do not think it is going to have a discriminatory impact. First of all, yes, it is a deviation from the principal of most favored nations, but so is GSP, which we already have and already give to poor countries around the world. Because we are giving it on a regional basis for a period of time, it does require the GATT [General Agreement on Tariffs and Trade] waiver. We will seek that when the Congress authorizes us to do so.

We do not anticipate a difficulty. Australia and New Zealand for example, will give similar treatment to the island countries of that part of the Pacific. So similar waivers have been granted in the past.

Senator MATHIAS. I do not want to interrupt your answer, but let me suggest to you that this is not a question of pregnancy. You cannot be just a little pregnant. This is a different sort of situation, in which you can get further and further away from the most favored nation principle. And you can be more than a little pregnant in this case.

Ambassador BROCK. Yes, it does tend to grow on you. [General laughter.]

Senator MATHIAS. Well, let us not get into what trimester you are entering. [General laughter.]

Ambassador BROCK. I do not even think that the court ought to make that decision. [Laughter.]

Let me get back to the real nub of the question. I think there is, and we put a term on it was precisely because we did not want a permanent displacement of the basic principle of MFN. We did hope that we could move these countries as they develop a domestic economic base more into a full partnership in the trading system. They simply do it now, but neither can Chad, Bangladesh, Thailand, nor a number of other countries that we care a great deal about.

I guess that the only thing that I can say to you in terms of whether or not it is an unfair program in that sense is, it is not because we do have the GSP for those countries, which is 100 percent duty free, for the products for which they apply for access. If we grant them that access they have a zero duty on the products that are given GSP so that there is no added advantage to these countries. Where other countries have a GSP access, the only place where there is an added advantage is in the area of sugar.

And in that particular case, we did have to put a tonnage requirement on, because of the impact on our domestic sugar program. The only other area is in the textile area, where we are bound by an international agreement and all we have been able to do there is to promise to treat them more liberally, than they might have been treated in the past.

But we consciously are trying to structure this so that we will not create an adverse impact upon any of our friends around the world. We are very sensitive of our need to improve our trading circumstances and our political relationship with all of those countries, wherever they are and geography is not the determining factor.

Senator MATHIAS. As I understand it, if we were to open these same trade opportunities to the world, China, India, Pakistan, Bangladesh, and most of Africa would meet the same test.

Ambassador BROCK. Well, you see they could all meet the test now under the GSP. What this program does, by giving a 12-year duty-free time, it is the time that is important, it is not the change in the rate. Most of the products come in duty free now, what we are giving them is a commitment to let that process continue for 12 years.

GSP expires in 1985, I pray that the Congress would extend it but there is no guarantee that it will. Or it could change it so at least for this 2 year period there would be no relative disadvantage to other countries. The term is important in order to draw investment.

If we made the same investment opportunity to the world, first of all, we simply could not cope with the flood. Second, the investment would be so diffuse, that nobody would benefit. We do think that there is a value to focusing the investment.

Senator MATHIAS. In that connection it is my understanding that you will offer OPIC insurance.

Ambassador BROCK. Yes, that is correct.

Senator MATHIAS. And that you will also try to negotiate bilateral treaties on investment with the Caribbean area countries?

Ambassador BROCK. That is correct. But we are not going to press them. That will be their decision.

Senator MATHIAS. That will be a worldwide opportunity and not limited to the Caribbean or Central America?

Ambassador BROCK. That is right, not at all.

Senator MATHIAS. So there cannot be any objections to that?

Ambassador BROCK. No, sir.

Senator MATHIAS. But beyond that, and especially for the Caribbean and Central American areas, you would propose a tax incentive for investment which is yet to come. Is that true?

Ambassador BROCK. Yes, a 10 percent investment tax credit, that is right.

Senator MATHIAS. But does not this raise the same question as the trade treatment? That you will single out the Caribbean in which we do have, as I said at the very outset, a very special interest, but single it out in a way that seems to identify our interest there in somewhat unfortunate terms?

Ambassador BROCK. I do not think that it is unfortunate, but I do think we are clearly singling it out.

Senator MATHIAS. Discriminatory terms.

Ambassador BROCK. It is not discriminatory unless you consider positive support as discriminatory. But that is true of any AID program. We provide special aid to countries around the world, on the basis of their special needs. You have to make some decisions and establish some priorities.

We have established the Caribbean as a priority area for us. There are a number of others who will receive treatment from us in a different fashion. But we will try to be sure that our friends will be given equal opportunity.

Senator MATHIAS. How will the tax incentive work?

Ambassador BROCK. Essentially the same way that it does here. If you want to make an investment in the United States, hopefully in the State of Tennessee, or Maryland, then you build the facility and get an investment credit of 10 percent of the original investment.

The same amount would be available to investment in the Caribbean Basin. It could be repatriated to the parent company. It is a clear incentive for investment.

Senator MATHIAS. Would that apply to Grenada?

Ambassador BROCK. If Grenada becomes a country with which we sign up, yes. That is a decision that they would have to make.

Senator MATHIAS. That they would have to make?

Ambassador BROCK. All of these countries will have to be negotiated with individually. All will have to indicate a kind of willingness in the self-help program that will allow the program to work.

Senator MATHIAS. I think that that is an important principle and I would support it, because if you exclude countries, Grenada, or any other, then you leave them no alternative but to look in another direction.

Ambassador BROCK. We honestly do not want to exclude anybody. We hope that all of these countries will find a way to participate. The only country we are excluded from by law, is Cuba.

Senator MATHIAS. And sore spots can grow, or the places that we really have to look at.

Ambassador BROCK. Yes.

Senator MATHIAS. Thank you.

The CHAIRMAN. Thank you, Senator Mathias. Senator Biden?

Senator BIDEN. Thank you, Mr. Chairman. Mr. Ambassador, I know you have to leave shortly, so I will direct a few questions to you first, if I may.

I remember your days in the Senate and we sat on the Banking Committee, and we both used to talk about tax incentives, renewed businesses, and this was sort of the beginning of the heyday of how we were going to encourage new investment. We talked a lot about that in the Banking Committee. Well, we have come up somewhat dry in this country on that point.

Our own Office of Tax Analysis recently completed a study which calculated estimates for new investment which had been generated by the 1973 domestic investment tax credit program. Given the various assumptions of the econometric models that they used, the results show that on the average, $1 out of every tax dollar expended produced only 76 cents of new investment. That is our tax analyst's analysis.

A very important part of this program, one of the three parts, is incentives for new U.S. investments in the region. An incentive, I assume, for worldwide investment in the region. My concern is this, we end up in a situation where I am not sure, with interest rates the way they are in this country, and with the risk factor as high as it is in many of the countries that we are trying to help, whether or not it is at all realistic to expect anything of consequence in terms of investment in the near term.

Ambassador BROCK. I think that is a very fair concern to express. It is quite possible that it will be some time before a major effect will occur. The greatest incentive for investment world wide is something that is unique and that is the duty free access to the U.S. market, that is the incentive to worldwide investors.

The add on incentive for U.S. investors, the 10 percent investment tax credit under the present economic circumstance will be slow in creating a significant effect.

Here is the problem we face, Senator. A lot of those countries—Jamaica is a good example—have tax sparing. They will give 5 years tax free to any company that comes in with an investment in Jamaica. But under tax laws, our companies that invest in other countries, can deduct taxes paid. Now if they do not have any taxes paid in other countries, there are no taxes to deduct, so if we do not provide some offset to that, Jamaica would be subsidizing the U.S. Treasury. So, there would be a disincentive.

Senator BIDEN. By the way, I do not disagree with the notion, but I am skeptical about the end product. I have no argument with the equity.

Ambassador BROCK. You have every right to be skeptical in the short term. But I think in the longer term it will make an impact. In the short term, however, it will be slow and difficult.

Senator **Biden**. One of the things that I am most worried about in this program is that, since we all in this committee, certainly I think that all of us in this committee and I think that all of you testifying this morning, recognize the need and urgency to do something in the region.

And we might do what we always tend to do, and I use "we" in the editorial sense, we oversell things. We wage war on crime and crime goes up. We have great new economic incentives and the economy does not move.

The public does not have a lot of faith in us right now, and I am using that in an editorial sense also. I am a little concerned that we are not being very realistic about it. Again, I know that the chairman did not say this was the Marshall plan, but I am not even sure that it is appropriate to make any reference in any way to the Marshall plan. In the Marshall plan, we spent up to 3 percent of our entire GNP to reconstruct war-damaged Europe and the billions that we poured into that effort represented an enormous, I repeat an enormous, commitment.

In the Caribbean we are talking about at most $500 million for a program for a region with a $1 billion annual capital flight. There is $1 billion a year leaving the region. That is capital that is leaving. And we are talking, at best, about something that is going to generate $500 million. We are not even going to make up half of the capital that is already on an annual basis, moving out of the region into the United States, into South America, into the rest of the world.

Ambassador **Brock**. If I might interrupt?

Senator **Biden**. Please do.

Ambassador **Brock**. I share the concerns that you express, but I would make a couple of points. That capital flight cannot be measured just against the U.S. contribution. Mexico and Venezuela are giving $700 million a year. I think that is correct?

Mr. **McPherson**. Yes, $700 million.

Ambassador **Brock**. In concessional loans for development just out of their oil facility. We do believe that we are going to get substantial commitments from other countries. We are also getting a lot of support from the international development institutions which should have been talked about earlier.

I think that the caution that you expressed though, is enormously important. We have tried very carefully not to oversell. This is not going to change the world. We pray that in 10 years it will have an impact in allowing them to develop a pluralistic society the way that they can choose their own future. But it is not going to change it this year, next year or 2 years from now.

Senator **Biden**. I appreciate that and I do compliment the administration on its initiative but, with all due respect, it is not even what I would consider significant in the context in which most Americans think that it is.

It is not going to have a major impact in the region, no matter how well it works. If it all works it will still not have a major impact on the region. It will have a progressive impact hopefully.

Mr. McPherson said in response to a question by Senator Glenn that the emergency is now. Yes, it is now. The implication is that this is the answer to the present emergency.

Ambassador Brock. No.

Senator Mathias. It is not? Then I think we should make that clear.

Ambassador Brock. What I am trying to say is that we have not done what we should have done for a long time, and if we do not start now, we are never going to do it.

Senator Biden. Agreed, I just wanted to be sure that we are on the same wavelength. And you have acknowledged that we are. That this is needed, that this is important, that hopefully it will have a cumulative effect and a long-term effect. But this it not the answer to our urgent need now.

This is not going to do as much in the next year for example, as if you came along and said that we are going to have a $5 billion aid program immediately this year. Five billion dollars appropriated for the region, that could have a bad impact, but it might have a good one. But it would certainly have an impact. It may all be bad but that would be felt immediately.

This is not even going to be felt this year.

Ambassador Brock. That would be felt in the elections for sure.

Senator Biden. Oh, sure it would. [Laughter.]

That gets me to my second point, and I know you have to go. If you have to go, I do not have any more questions for you directly, Bill.

Ambassador Brock. Thank you, very much. If you will excuse me, Mr. Chairman, I will leave.

Mr. McPherson. Senator, may I follow up on one thing which you mentioned?

The Chairman. Ambassador Brock, might I just ask you, do either of my two colleagues have any urgent questions for Ambassador Brock?

Senator Tsongas. Mr. Chairman, I wanted Secretary Brock to be here to listen to my questions though they were not addressed to him specifically. I think that we should perhaps let him go and talk among ourselves.

Senator Dodd. Well maybe you want to let him go, but I would like him to stay for just a few minutes, if I may.

Senator Biden. Why do not I yield the rest of my time now, temporarily to Senator Dodd, so that he could ask Ambassador Brock his questions?

Senator Dodd. Thank you, very much, Joe. I have just a few questions, Mr. Chairman.

Mr. Ambassador, I apologize to you. I realize what schedules are like, but the centerpiece of this whole program is the trade, aid and investment. Obviously it is crucial to have your input.

I just have a couple of points. It seems to me that the whole question of private sector involvement, while it certainly can contribute significantly to economic development, I think that it is just as true to say that the primary concern of the private sector is not economic development.

And that to suggest somehow, through trade and investment, and putting aside the aid part for a minute that we are going to achieve a kind of economic revival in one or two crop economies, or that by grafting supply side economics to the countries of the Caribbean Basin is optimistic at best.

I would like to know from you, what considerations have been given to consultation, not just with this country and the respective countries of the Caribbean Basin, but what consideration has been given to trying to develop some sort of a common market approach?

We are encouraging, I suppose, a tremendous amount of competition. There is not a tremendous amount of diversity in the products of the countries of Central America and the Caribbean Basin. If you go down the list, you will find that one country after another is exporting the same goods, whether it be textiles, apparel, sugar, cocoa, or whatever. We are opening up the door here, and saying in one way, free trade zone, come on in.

Now what does that do to the economies of these countries as they compete with each other for the U.S. market? Having excluded textiles, apparel, and sugar, what consideration was given to that and how much consultation occurred between member states in the Caribbean Basin?

Ambassador **Brock**. A great deal of thought was given to it. They already have associations which are designed to move in the direction of their own common markets. The island countries have their own association and the Central American countries have recently formed their own association, to achieve the same process.

It does make sense for them to form collectively into that sort of group to share the growth potential and to maximize the strengths that each one would bring to the process and not simply to just have overt competition.

I think it is fair to state that without some unique duty free access to the biggest market and the most productive market in the world, even if they all belonged to a totally free common market today, there is not a sufficient level of income in these countries or basic economic plant for them to pull themselves up by their own bootstraps.

It takes both. Hopefully, what we have given them are some additional tools with which to move, first to a common market among themselves, to enhance the diversity of their economic growth and secondly, to achieve that diversity through sales to the United States as well.

Senator **Dodd**. Let me be more specific about the competition. This committee recently approved a treaty which extends the convention tax credit to Jamaica. One exists for Mexico and Canada. Now I know, as do the members of this committee, of at least four other countries in the Caribbean Basin that have made requests through their representatives in this country for the same status that we have extended to Jamaica.

Is it your recommendation that as part of the Caribbean Basin Initiative that we extend that convention tax treaty to all of these other nations?

Tourism is a major industry in the Caribbean. It was the suggestion of Prime Minister Seaga that by extending that convention tax treaty we would significantly enhance this economic program in that country. Should we be doing that for these other countries in the Caribbean Basin? Or are we just going to selectively pick out a few and deny it to the others?

Ambassador **Brock**. Marc Leland may want to comment on that. The problem with extending the convention tax treaty approach is that it is very difficult to stop the process once it begins with the Caribbean. Why not ASEAN, why not some of our friends elsewhere? Then what you have done is to diffuse any benefit at all. The Treasury position, I think, was that we had better be very careful and as applications were made they would be considered and done so in consultation with the Congress and a decision made.

Senator DODD. Let me say that is a terrific way of providing some foreign aid if you want to, without having to get into the authorization and appropriation process.

We have a CBI, but we do not have an economic program for the whole world. We are talking about one for the Caribbean Basin. It seems to me that you have something that could provide some needed economic assistance by everyone's admission, so why not extend that treaty to these other countries?

Ambassador BROCK. I appreciate what you are saying, but the only response that I can give you is that we recalled the difficulty that we had getting that one treaty through the Senate.

Senator DODD. I understand that, but what is your view?

Ambassador BROCK. I find it difficult to disagree with you.

Mr. LELAND. I would like to support Ambassador Brock's earlier view, however, that you are trying to focus on a specific region. You know, you can do this with anything. There have been arguments—we examined them—for the tax sparing and the cost of that. We have a rule whereby the income of a foreign corporation is not taxed at all until it is brought back to the United States as a dividend. So if it is left over there, the tax does not get paid until it gets repatriated.

The extension of the investment tax credit is a specific advantage that we want to provide to this region because we definitely do want to promote investment there. I think that was the basic point of Ambassador Brock. If we start saying that we are going to start doing all of these things for all of the world, I think, first of all that would neglect——

Senator DODD. No one said all of the world. We are not talking about the whole world, we are talking about a Caribbean Basin Initiative and we all understand the economic restraints that we face.

We are looking for ways to provide that economic assistance without strapping our own domestic needs in this country. It seems to me that everyone has admitted pretty much in the past that this is one vehicle that could be used to inject some needed dollars into the Caribbean economies without getting involved with massive foreign aid programs.

That is really the only suggestion that I was making. I would like also to request, if I could, Mr. Ambassador, this: In the fact sheets, there was talk about significant consultation. I would like to see a demonstration, some evidence of that.

I was in the Caribbean Basin in January. I visited many of these countries. The one question that came up every place that I visited was: What is the Caribbean Basin Initiative going to include?

I certainly did not know. But neither did the foreign ministers or the economic ministers of any of the countries that I was in. They did not have any idea of what was to be included in the Caribbean Basin Initiative. Now that was in January, maybe an awful lot happened last month, in February. But as of January there was no sense that I had that there was any consultation occurring with these countries about what their needs were and how we were going to approach the overall problem of economic assistance for the Basin.

Ambassador **Brock**. I do not believe that there is a single country down there—and if there are, there are very few that we did not visit well before January. Most of them were visited on several occasions.

Consultation means that we asked from them what would be of primary benefit. We discussed alternatives with them and then we came back. No; it is eminently logical that they did not know what we were doing in January, because we had not decided.

We took all of these suggestions and tried to fold them into a coherent whole. We had our own debates with the administration and a lot of discussions and then we finally presented a program that was premised on what they said.

Senator **Dodd**. Well, let me say that in January Colombia was not even included. It was not a part of the package at all and wanted to be considered at least possibly as a donor country.

The Dominican Republic, which will be receiving $40 million in aid and obviously would be impacted by the sugar policy, had no idea whatsoever and did not believe that I did not know. Frankly, in meetings with the President and the Foreign Minister, and the Economic Minister and the private sector down there, I would like to see to that. I think that is important.

I would like to know where the record is with regard to that and what considerations were given to the specific needs of these countries.

Ambassador **Brock**. We would be happy to provide that.

[As of the date of publication, the information referred to had not been supplied.]

Senator **Dodd**. Thank you. Thank you, Mr. Chairman.

The **Chairman**. Thank you very much, Ambassador Brock. We appreciate your appearance with us today.

Senator Biden, you have another 2 minutes.

Senator **Biden**. Let me ask now about Guatemala. Guatemala is not included. Do the events in Guatemala that occurred in the last 72 hours impact on your thinking in any way? Is that cause for reconsideration? I do not expect you to have the answer to that now, but what is your present assessment of the effects of what took place in Guatemala?

Ambassador **Stoessel**. Senator, I would say that we as yet do not have a firm assessment of what has taken place. It is very fluid. The situation is very unclear, and we are trying to find out as much as we can, but it is really too early to tell.

Conceivably, if things do move in the right direction, this could have an impact on consideration of Guatemala in this program. But it is too early to tell.

Senator **Biden**. I am not sure that you all realize how widely felt the concern expressed by Senator Zorinsky is about El Salvador. Unlike the chairman of the committee and others who spoke, I have not had this program greeted with unabashed enthusiasm. The question that I get asked in my State, and this has been since the day that the President announced it, and I have been doing these town meetings almost every Monday night.

I do them in the beginning of the year, because once we get going, you cannot be sure that you can be home, once the Senate is rolling along. And anywhere from 250 to 350 people a night show up at these things in my home State. And whether it is upstate or down, in an affluent or an agricultural area that is having trouble, I get asked a number of questions.

One question keeps coming up about the Caribbean and once they get off of El Salvador, specifically, and ask about the President's initiative, and whether or not it is just a "Trojan horse" to get aid to El Salvador, which you would not otherwise be able to get through?

I know that you have answered this, but I want to make it clear that I think it is a really serious problem that we have. We are talking about $350 million total and over one-third of that going to El Salvador. Everyone is aware of the fact that you all have figured out that there is not a whole lot of support in this country for sending military and/or economic aid to El Salvador. So the overwhelming concern is to those that expressed concern, is that this is merely a "Trojan horse" to get money into El Salvador that you otherwise would not be able to do.

And I know that that is not your stated purpose. You have explained why that is not true.

But the fact of the matter is that there is that concern. And it is a real one. I think that you are going to see it rear its head here in the Congress. I think that you are going to be met with that on the floor of the Senate and the House of Representatives. And especially since, when you figure out what the remaining two-thirds is likely to do in terms of impacting upon this major new initiative that we are supposedly talking about.

I have a number of questions, but my time is up, but I just wanted to end with that sort of warning. I think that it is a real one and you should take it very seriously and I think that it may cause some real problems in terms of getting support for what otherwise is a positive initiative, although, for the record I should state, that I do not think that it is a very significant initiative. I think that it is positive, but insignificant.

Mr. McPherson. Senator, we certainly appreciate your comments in that regard. We try to be sensitive to public concerns. We would like to emphasize again, here today though, that the economic problems in El Salvador are truly enormous.

This is an economy in which the GNP has dropped by 20 percent in the last couple of years and unemployment is at 25 percent. With an economic problem of this magnitude, it is rational to put substantial amounts of money into El Salvador.

Senator Biden. Is the economy that much worse off than that in Costa Rica?

Mr. McPherson. Costa Rica has 8-percent unemployment; El Salvador has 25-percent unemployment. I would like to make a broader comment about what we have been discussing today in this hearing, which has been very constructive and helpful to us, in presenting our views and listening to yours.

We have not emphasized the amount of self-help that this program intends to stimulate. I mean self-help in the sense that the trade provisions, for example, are to be extended to countries by Presidential determination only after several conditions have been taken into consideration.

A very important consideration is what these countries have done for themselves in terms of policy change. Many of these countries are in a position to do a great deal more than they are now doing in areas such as environmental protection.

I agree with you that we should take a long-term and not too optimistic view, but if the United States can stretch its hand out and these countries, in turn, will do the job that they can do, it can be quite a combination.

Senator BIDEN. Thank you. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, very much, Senator Biden. You know that I did not go to Harvard but I did not say that there was unabashed support. In fact, I pointed out several major questions that have been raised about its effect on jobs here and whether it would accomplish the job. But generally speaking, I think that this has been one of the more favorable proposals made by the administration. And it has generally met with favorable response.

Senator BIDEN. I would agree with that. It is one of the more favorable proposals that you have made, I have no question about that. [General laughter.]

The CHAIRMAN. Senator Tsongas. And by the way, we will complete this panel at the end of your questioning. Take your full 10 minutes and the second panel will be called at the completion.

Senator TSONGAS. Thank you, Mr. Chairman, I have a few points and questions.

First of all, I would like to suggest my support for the initiative. I think that the administration when it does engage in these kinds of activities, deserves some running room. I think that is true for example, in the case of Mr. Crocker's constructive engagement theory with South Africa. Despite my reservations, I have given him some running room and I will do so in this case.

The second caveat is that I have serious disagreements with the administration on policy, but I do have to acknowledge the quality of the panel and its professionalism. Say what you will about other things, these kinds of people representing the administration speak well for their commitment to quality people in office. I think that should be said.

The CHAIRMAN. Thank you. I say that to you on behalf of the panel.

Senator TSONGAS. This leads me to my next point. There are a number of issues that I had intended to raise, but given the time constraints, I will ask instead that various articles in the press about the initiative be included in the record to raise the points, the common market approach being one of them.

[The articles referred to follow:]

[From the Washington Post, March 25, 1982]

DECREE RULE BEGUN IN GUATEMALA—LEADERS OF COUP DROP MENTION OF ELECTION GOAL

(By Loren Jenkins)

GUATEMALA CITY. March 24—Guatemala new three-man junta said today it took power because "disorder and corruption" in the ousted government of Gen. Romeo Lucas Garcia had made it impossible to rule constitutionally. It announced suspension of the constitution, dissolution of the National Congress, and rule by decree.

The junta pronouncement, made in a 12-point communique broadcast nationwide 24 hours after yesterday's nearly bloodless military coup, made no mention of new elections or the establishment of civilian rule, which appeared to have been the key objectives of the young Army officers who led the overthrow of president Lucas Garcia.

The lapse reinforced indications of a split between the lieutenants, captains and majors who clearly controlled the loyalty of troops around the country during the day of the coup and the three-man junta installed under the presidency of retired Brig. Gen. Etrain Rios Montt, a rigid disciplinarian.

The new president, in his first pronouncement to the nation, angrily and emotionally criticized civilian politicians.

Rios Montt's sudden emergence seemed today only to deepen the political confusion about the meaning of the coup and raise new questions about whether his government would prove any more acceptable to the United States than did that of his predecessor, whose record of human rights violations led to U.S. suspension of military aid.

As a presidential candidate in 1974 elections representing a coalition of Christian Democratic and other parties, Rios Montt appeared to have won a plurality, but the Guatemalan military subsequently declared its own candidate the winner.

In an impromptu press conference today, Rios Montt said that president Lucas Garcia and his brother, the former Army chief of staff Benedicto Lucas Garcia, were under house arrest pending a decision on whether they should stand trial. Various other members of the government, including the president's personal secretary and the minister of defense, Gen. Rene Mendoza, were also under arrest.

The much despised chief of the National Police, Gen. German Chupina Barahona, was also arrested and replaced by a 27-year-old Army commando lieutenant, who promptly ordered Chupina's plainclothes policemen to be disarmed. The plainclothes police were often accused of being the "death squads" that have assassinated thousands of civilians suspected of disloyalty or leftism.

Angry mobs including young soldiers sacked the house of Chupina's immediate superior, Minister of Interior Donaldo Alvarez Ruiz, who was in Miami at the time of the coup.

Informed sources said the coup did not come as a great surprise to Western diplomats here, who through their contacts with young officers had been hearing of discontent with the Army and national leadership since January.

The emergence of Rios Montt at the head of the coup both surprised and dismayed many foreign observers here who at first had been heartened by the young coup leaders' initial declarations in favor of democracy.

Well-informed sources said that actual control of the country was still subject to great speculation and that the direction of the coup was still "fluid."

"It is still very early on in a very fragile situation," cautioned one experienced foreign diplomat here. "Everything can change. It is the nature of most coups to take some time to sort out who is really in power."

The caution expressed by experienced observers here hinged on the rapid shifts in power the day of Lucas Garcia's overthrow. Between the time that the young officers, leading some 2,000 troops from the capital's Mariscal Zacapa Brigade, surrounded the presidential palace in downtown Guatemala City at 10 a.m. and Rios Montt's appearance on television at 9:25 that evening, the composition of the junta underwent at least three permutations.

The first junta, announced before Lucas Garcia surrendered, consisted of Rios Montt and four coup leaders—all young officers described by informed sources as linked to the extreme rightist National Liberation Movement of former vice president Mario Sandoval Alarcon.

Sandoval and two other defeated candidates claimed the government committed fraud in the March 7 presidential elections in favor of the government's own candidate, Gen. Angel Anibal Guevara, who was declared the winner 10 days ago.

Sources in touch with the young officers group said that Rios Montt was not part of the coup planning, but was summoned to the presidential palace to join the young officers, who put him forth as a safe figurehead for their group. During negotiations with Lucas Garcia, Rios Montt reportedly gained increasing control over the young officers, most of whom had been his students or served under him in his former posts as commander of the Mariscal Zacapa Brigade and director of the Guatemalan military academy.

In still unexplained circumstances, by the time Rios Montt appeared on television last night with fellow junta members, the young officers had been replaced by more senior officers and the junta had been reduced to Rios Montt, Brig. Gen. Horacio Maldonado and Col. Francisco Luis Gordillo.

Of the original young officers leading the coup, only three appeared, standing behind the junta members as "advisers."

Rios Montt, variously shouting and waving his fist at the audience, delivered an emotional 13-minute talk in which he made it clear that he intended to assume the powers of government that he considered to have been stolen from him in 1974.

"Eight years ago they cheated us, and four years ago they cheated us," he exclaimed, referring to the elections, "and now they have tried to cheat us again."

Ignoring the deep ties between the young officers and the National Liberation Movement party, Rios Montt spoke harshly of the politicians with whom the military had traditionally shared power. "We don't want any more cheap politicians; we dont' want any more of the same faces." Rios Montt declared as his voice rose to a high pitch. "We don't want them to come around congratulating us or giving us adulation. We already know all those types."

Rios Montt also warned leftist guerrillas fighting the government that if they did not lay down their arms, his Army would come and take the guns away. He also warned rightist civilians to turn in their machine guns and pistols. Observers here noted that Sandoval's National Liberation Movement is considered to have the largest private army of rightists.

Informed observers close to some of the young officers said they expressed both anger and surprise at the general's speech. They said they had formulated a three-point plan calling for free elections within 60 days, ineligibility of military candidates and an end to government corruption and communicated the plan to a U.S. military official.

When Rios Montt ignored all the points in his speech, according to a source close to some of the officers, they complained they had been "taken for fools."

Western diplomats here expressed surprise at the new president's emotionalism, as Rios Montt raged against the evils of the Army-backed Lucas Garcia regime, the armed civilians whose private war have brought a bloodbath to Guatemala and the "subversives" or guerrillas who have strained the Army, damaged the nation's once prosperous economy and heightened the wave of officially condoned terrorism.

An American resident who knows Rios Montt said he is the brother of the Roman Catholic bishop of Esquintla. He converted to Protestantism and has been called a "born again Christian," the American said.

In San Salvador, Reuter reported, the Salvadoran Christian Democratic Party headed by President Jose Napoleon Duarte took out full spreads in the national press to applaud the military takeover in Guatemala.

[From the Washington Post, March 3, 1982]

A "BASIN" MARSHALL PLAN

(By James H. Street)

NEW BRUNSWICK, N.J.—Though President Reagan's proposal for economic assistance to the Caribbean Basin is constructive, it should go further. It has been compared to the Marshall Plan, and indeed we should examine that successful program for European economic recovery after World War II and apply its key features to Central America and the Caribbean islands.

The Marshall Plan was a comprehensive program for reconstruction and development, in which private efforts and public assistance were effectively combined to repair the ravages of war, cope with inflation and payments problems, and promote Western Europe's long-range development. Similar circumstances prevail in Central America, on a smaller scale and at an earlier stage of development.

The first objective must be a cessation of hostilities. The Reagan Administration should take advantage of the offer of President José Lopez Portillo of Mexico to serve as a mediator. He is probably the Western Hemisphere's only national leader with the stature and respect to secure cooperation from Sandinist leaders in Nicaragua, the armed opposition in El Salvador, and the Castro Government in order to achieve a general reduction in forces and active cooperation in a regional development program.

Once hostilities have been reduced, a start can be made in restoring hope to despairing peoples whose countries are in shambles. The United States should take the lead in reconstructing the system of economic integration in Central

America that was promising a few years ago and that Washington should not have abandoned.

Four features of the European Recovery Program, suitably adapted, should be incorporated in a Central American reconstruction program.

First, it must begin with emergency measures to provide humanitarian assistance, without regard to friend or foe, as we did in succoring Germany and Italy. The United States, Canada, and possibly Argentina possess ample surpluses of food to alleviate the starvation rampant in Central America. Medical supplies, hospital equipment, and the rebuilding of schools as well as power plants and bridges, all critically needed, can never be financed commercially. We provided grant assistance in the reconstruction of Western Europe and Japan, and can do it without strain for our smaller and poorer neighbors.

Second, we should revive the institutional structure of the Central American Common Market, with its long-range strategy for the integration and industrial diversification of the regional economy. The seven small countries of Central America and their Caribbean island neighbors are individually too small to develop self-sustaining economies, but collectively they could participate effectively in the growth of the Western Hemisphere's economy.

Third, in providing public and private assistance for Central American growth, we should use the counterpart-funds method built into the Marshall Plan to prevent inflation. Modified, this dual approach—indirect financing through United States firms so that goods instead of money reach intended beneficiaries, and Caribbean Basin governments' setting aside local funds for use in development in proportion to our contributions—could avoid the inflation that otherwise accompanies sizable financial aid before productive facilities are completed. Fiscal and monetary integrity must be built into the system from the start to prevent the benefit from being siphoned off at the top.

Fourth, we must help countries that are still in a neo-colonial stage of development stabilize their export earnings. In 1970, a 60-pound bag of coffee could bring 30 barrels of oil into Costa Rica; by 1980, it would pay for fewer than three barrels. While 62 pounds of bananas exported from Honduras once purchased one barrel of oil, after the Organization of Petroleum Exporting Countries increased their prices in 1980, and the onset of the recession in the export market, it took 16 times that, or nearly 1,000 pounds, to buy a barrel. Small wonder that Caribbean Basin countries cannot plan for sustained development by trade alone.

Since products such as coffee and bananas already enter the United States without duty, President Reagan's offer of free access to our markets is meaningless unless we assure Basin countries of greater stability in our purchases. Nor will random investment by private firms ensure sustained progress; such investment must be built into an integrated program of development.

For nearly a decade, the Central American Common Market was a model of regional progress, and with persistence it can be restored. When Secretary of State George C. Marshall initiated his plan in 1947, he said it would provide "a cure rather than a mere palliative." It is time we set a similar goal in the Caribbean Basin.

(James H. Street is professor of economics and a member of the Latin American Institute at Rutgers University.)

[From the Washington Post, March 24, 1982]

VENEZUELAN CRITICISM—LEADER ATTACKS U.S. POLICY

(By Jackson Diehl)

CARACAS, VENEZUELA, March 23.—Venezuelan President Luis Herrera Campins, who has been a strong backer of the Reagan administration on El Salvador, criticized recent U.S. policy in Central America today and said Washington "should make an effort to comprehend" Latin America's problems "in order to act in a realistic way."

Herrera also said that following elections scheduled for Sunday in El Salvador his Christian Democratic government would reevaluate its own policy there, no matter who the victor was. He did not rule out possible Venezuelan support for talks with El Salvador's left-wing forces.

Herrera made his remarks in an interview in the presidential palace here one day after releasing a letter he received from the leadership of the antigovernment guerrillas in El Salvador. The letter, signed by the five military commanders of the Farabundo Marti Liberation Front, said Venezuela could make a "decisive" contribution to a "just political solution" in El Salvador and called on Herrera to help bring about the comprehensive negotiations the guerrillas have proposed.

Herrera, who read parts of the letter on Venezuelan television last night, answered the guerrilla leadership with a new endorsement of the Salvadoran elections, which the guerrillas and their political allies are boycotting on the ground that the elections would be unfair and fraudulent in the country's current climate of violence. But he said today, "I am awaiting the electoral results in order to establish our attitude toward the possibilities that exist" for resolutions of the country's crisis.

The United States and the Salvadoran government steadfastly have rejected suggestions of talks with the guerrillas, arguing that they should take their case to the Salvadoran people through the elections rather than bypassing the ballot box for the bargaining table.

Venezuela has provided more than $100 million in economic aid to the Salvadoran government and Herrera called the elections "a democratic triumph against the threat of subversion." He expressed strong hopes that the party of his fellow Christian Democrat and personal friend, Salvadoran President Jose Napoleon Duarte, would win.

Although it has joined in U.S. support of Duarte and the Salvadoran elections, Venezuela long has differed with Washington on several key Central American issues, most importantly the Sandinista government in Nicaragua. Last year, the Reagan administration suspended U.S. aid to Nicaragua to protest Cuban influence there and Sandinista support for the Salvadoran guerrillas.

Venezuela, whose support of the Sandinistas was instrumental in their 1979 victory over dictator Anastasio Somoza, has continued to support and send economic aid to the Sandinista government. Herrera reiterated that backing today, saying that Venezuela would continue its ties to Nicaragua "while there is a possibility that they will realize their pluralistic projects."

Herrera also responded sharply to recent rhetorical attacks by the Reagan administration on Nicaragua and reported plans for CIA-backed, covert, paramilitary operations to interrupt supply lines to the Salvadoran guerrillas by disrupting the Nicaraguan economy.

"The language of the threat," said Herrera, "is very far from being the answer to the situation in Central America and the Caribbean. We reject all armed intrusion in the area."

Herrera said that the United States "has a great potential" to help Central America but added that "it does not have the same historical and economic roots as Central America and South America. The United States should make an effort to comprehend those factors in order to act in a realistic way, Herrera said, adding, "and they have to make that effort more intensely."

Among events that have annoyed the Venezuelan government were the recent NATO naval exercises in the Caribbean, about which Venezuela was not informed in advance. Venezuela protested the maneuvers in the Organization of American States, and Herrera said yesterday that the NATO countries should be looking for "peace and not confrontation" in the Caribbean.

Although Herrera praised President Reagan's new Caribbean Basin initiative as a "political opening," he argued that the plan did not include enough aid for Central American and Caribbean countries.

"This is very little for the United States to give," Herrera said. "This is what we give every year to nine countries in Central America and the Caribbean," he said, referring to the joint Mexican-Venezuelan program of oil-import subsidies for countries in the region.

"If Mexico and Venezuela can give 350 million [dollars] a year," Herrera said, "the United States should be able to make a much bigger contribution."

Herrera's announcement that Venezuela will reevaluate its policy toward El Salvador after Sunday's election comes at a time of continuing criticism on the issue from the government's domesitc political opposition. The social democratic chief opposition party in Venezuela, Democratic Action has said that elections in El Salvador will not help the country and that Venezuela should support negotiations between the Duarte government and the left.

The letter received by Herrera from the guerrilla leaders, Democratic Action leader Simon Alberto Consalvi said today, "is anorher demonstration of the possibility of doing what should have happened a long time ago: a search for political negotiation between the various sectors of El Salvador."

Herrera refused to say today whether he would support or consider negotiations in El Salvador when the elections were over, and instead focused on his hopes that what he called "the people who believe in change" would win the election.

"Our information shows us the probable victory of the Christian Democrats," Herrera said, "despite the international campaign that has been orchestrated against President Duarte and the junta that in its basis could benefit the reactionary right."

Five other parties, all to the right of the Christian Democrats, are contesting the election.

"A victory by the Christian Democrats," said Herrera, "would simplify the matter greatly because it would guarantee the continuation of the social reforms started by the government."

[From the Washington Post, March 25, 1982]

"NO COMMENT" ON REPORT OF UNITED STATES-CUBA CONTACTS—U.S. CAUTIOUS ON GUATEMALAN COUP

(By John M. Goshko)

The Reagan administration took a wary stance yesterday toward the new military rulers of Guatemala amid reports of new developments in the volatile Central American situation.

The State Department withheld substantial comment on the Guatemalan coup while seeking a clearer picture of the new regime's likely political direction.

Officials at State and at the White House also refused to comment on a report by CBS News that Gen. Vernon Walters, ambassador at large and veteran secret emissary, visited Cuba earlier this month in an effort to persuade President Fidel Castro to drop support of Central American guerrilla movements.

Secretary of State Alexander M. Haig Jr. and other State Department officials have said in recent days that they anticipate direct talks between the United States and Cuba, and the United States and Nicaragua, to begin sometime after this Sunday's elections in El Salvador. No details have been announced.

While refusing public confirmation, administration officials acknowledged privately that Mexican Foreign Minister Jorge Castaneda was correct when he said yesterday that representatives of the United States and Nicaragua probably will meet soon in Mexico City.

These officials said the United States is unlikely to respond publicly until after Sunday's Salvadoran elections for a constituent assembly. But, they added, the administration—while skeptical about the chances for progress—is committed to the talks and tentatively expects to send Thomas O. Enders, assistant secretary of state for inter-American affairs, to Mexico for an exploratory round after the election.

Regarding the Guatemalan coup, State Department officials said privately that they have no sense of whether the military group that ousted President Romeo Lucas Garcia Tuesday is sincere in its professed dedication to reform and democratization or whether it represents a continuation, in another guise, of rule by rightist military and business forces that traditionally have dominated Guatemala.

Until that question is answered, the officials stressed, there is no way to tell whether events there might offer the administration an opening to pursue the closer military relationship it believes essential to countering communist penetration of Central America.

Haig and other officials sugested that Guatemala may be the next "domino" in a bid to subvert Central America through campaigns of guerrilla warfare and terrorism. They also have made no secret of their belief that the United States has a vital interest in helping the Guatemalan armed forces turn back this threat.

But Haig also has conceded that there is little hope of resuming severed ties with the Guatemalan military until authorities there take steps to end rights abuses and authoritarianism that have prompted Congress to block renewed security assistance.

Administration officials originally hoped to find an opportunity for a fresh start in the Guatemalan presidential elections earlier this month. But that hope was dashed by charges of fraud and manipulation by the military that arose after the balloting and that led finally to Tuesday's coup.

Last night, the administration still was pondering whether the takeover by a junta led by retired Gen. Efrain Rios Montt might offer another chance to prod Guatemala toward a moderate course acceptable to Congress.

But, as one official said, "It's too early to be optimistic or pessimistic. There are just too many questions to which we don't yet have answers."

Some officials acknowledged that reports from the U.S. Embassy in Guatemala City are not reassuring.

The officials said the embassy, while initially encouraged by the apparent reformist bent of younger officers who led the coup, subsequently warned that emergence of Montt and others in the group that now appears in command might be a sign that power has reverted to traditionalists dominating the Guatemala power structure.

There has been considerable speculation here and in Guatemala that the coup was intended not to nudge the country toward reform but to overcome the bad odor left by the elections and permit Washington to resume aid by disguising continued control of the military and its allies under a new facade.

The State Department also announced that the foreign ministers of El Salvador, Honduras and Costa Rica, which recently formed a Central American Democratic Community, will meet here today with President Reagan and Haig to discuss the administration's Caribbean basin initiative and other issues affecting the region.

[From the New York Times, March 4, 1982]

U.S. SEEKING RIGHT TO USE AIR BASES IN THE CARIBBEAN—TWO COUNTRIES APPROACHED

AIRFIELDS WOULD BE IMPROVED IN COLOMBIA AND HONDURAS—$21 MILLION SOUGHT

(By Bernard Gwertzman)

WASHINGTON. March 3.—The State Department said today that the United States was seeking the right to use air bases in Colombia and Honduras, apparently as part of an effort to bolster the defense of non-Communist nations in the Caribbean area.

Disclosure of the Administration's plan came first from the Defense Department, which said it was asking for $21 million in the 1983 military construction budget for "the purpose of airfield improvements in the western Caribbean area."

Pentagon spokesmen declined to say what countries were involved, but Dean Fischer, the State Department spokesman, said, "We are talking specifically in this instance about Colombia and Honduras."

USE BY U.S. PLANES FORESEEN

Mr. Fisher said that the United States would seek permission to improve airfields belonging to those two countries and use them for training, search and rescue, and relief flights "and for such other activities as agreed upon by the two countries."

He noted that the United States had similar agreements "with many of our allies in Europe and Asia, as well as with a number of other countries such as Oman, Kenya and Somalia."

Asked if it was contemplated that the Rapid Deployment Force, which is being developed primarily for the Middle East, might be used in the Caribbean area, Mr. Fischer said:

"We do not envision the use of such facilities for rapid deployment forces, but I can't anticipate all future contingencies. But whatever these contingencies are and how they are dealt with would be dependent upon agreements and concurrence by the countries."

CONCERN OVER CUBA NOTED

The decision to seek base rights in Honduras and Colombia appears part of the Administration's overall policy to improve economic, social and security conditions in the Caribbean region. Both countries have expressed concern about Cuban activities in the area, with Honduras particularly worried because of its shared borders with Nicaragua and El Salvador.

The United States already has air, land and naval facilities attached to the Southern Command in Panama and air and naval bases in Puerto Rico and Florida. It also has a large naval and air training base at Guantánamo Bay on the United States-controlled enclave in southeastern Cuba, although its usefulness in a regional conflict is questionable.

There was no explanation from either the Pentagon or the State Department on the military need for new facilities in the western Caribbean. But one State Department official said that if facilities were obtained in the region it would be for psychological reasons as much as anything else, to demonstrate American backing to the countries there.

Adm. Thomas Hayward, Chief of Naval Operations, told a House Armed Services subcommittee today that the Pentagon was studying options for using Navy and Marine forces to protect United States interests in Central America and the Caribbean.

"The Joint Chiefs of Staff have been examining anew the numerous options considered feasible in support of our continued interest in Central America and the Caribbean," he said. "Our commitments require us to present increasingly a counterweight to Castro's expanding support of Central American and Caribbean insurgents, as well as his continued appetite for opportunism in Africa."

In another development aimed against the Cuban Government of President Fidel Castro, Thomas O. Enders, Assistant Secretary of State for Inter-American Affairs, sought support from the House Foreign Affairs Committee for the Administration's plan to set up a new station, named Radio Marti, to broadcast to Cuba from Florida. The initial costs for the first year of start-up operation would be about $10 million, Mr. Enders said.

He said the station, modeled after Radio Free Europe, which broadcasts to Eastern European nations, and Radio Liberty, which broadcasts to the Soviet Union, would not be involved in "propaganda."

"Radio Marti," he said, "is intended to supply what the Cuban public is missing: reliable news about Cuban life, features, sports and entertainment alternatives to those offered by a Government that rules not for the people but for itself."

Much of the committee's discussions, however, was not about the Radio Marti proposal but about complaints from American radio stations that Cuban broadcasts were interfering with their transmissions.

Representative Andy Ireland, Democrat from Florida, said that the loudest station in his district in central Florida in the afternoon and evening "is Radio Moscow from Cuba." He urged that the United States try to jam the Cuban broadcasts, but Mr. Enders warned that this could lead to "an escalating battle" with Cuba.

"Meanwhile, a letter urging President Reagan to accept the offer by the Mexican President to mediate the disputes between the United States and Nicaragua and between the factions in El Salvador gathered the signatures of about 100 Congressmen today.

The letter, drafted by Representative David E. Bonior, Democrat of Michigan, and Representative Jim Leach, Republican of Iowa, said that the proposals by President José López Portillo "seems to us to be a viable basis for opening up the peace process in Central America."

United Press International reported today from San Salvador that guerrilla leaders had accepted the proposal of President López Portillo but that the Government had made no decision. "We have not formulated an official response at this time," a Government spokesman was quoted as saying.

I would like to stand back, now, and discuss the new era in which this initiative exists. My concern is that what we may be doing is taking one very constructive step forward, while the rest of the Government is taking two rather destructive steps backward.

Now, being realistic, one must ask the question, why an initiative to the Caribbean? I spent 1968 in the West Indies. It is abysmally poor. One really has to understand the need. Let me ask why not the Sub-Sahara where the needs are even more dramatic? There you have not only economic deprivation but you also have people dying.

Obviously they are our neighbors. But what is also obvious is that the major reason we are doing this is an attempt to thwart the appeal of Marxist-Leninist rhetoric that is coming out of Havana. If one thinks that there is no link between this initiative and Castro, I think that one is somewhat naive.

Now, I do not say that in a prejorative sense. We all engage in realpolitik and obviously the Alliance for Progress in many respects was a function of the same concern. What we are engaged in here is a battle for hearts and minds and the best thing that we have going for us is our economic system and our values. That is what this initiative is about. And I applaud it.

The problem that I have is simply that our values exist and thrive when there is stability. In a contest with Marxist-Leninist rhetoric etc., they simply have the upper hand in periods of revolution because they use weaponry and ideology. We basically deal with values, investment, trade, technology, and that kind of thing.

And the concern I have as in the case, for example, of El Salvador, is that if you have, as Senator Zorinsky pointed out, massive flight of capital from that country at the same time that you are trying to put some in, the obvious question is does it not make sense to stop the flight?

So what I am saying is that I think that this initiative is very important and commendable and I will support it. But it exists in the millieu of two other major developments; one, the refusal by the administration to agree to a cease-fire negotiation in El Salvador, and two, the whole issue of destabilization activities in Nicaragua.

We have the same administration and the same people and what I think are remarkably counterproductive policies. I would hope that the same initiatives that led to this one that you are discussing today, could also lead you to the realization that there must be a cease-fire in El Salvador. You are just pouring money down a rat hole unless there is, indeed, a cease-fire and stability.

Second, to the extent that we engage in destabilization in Nicaragua we are casting serious doubt on the validity and intent of the Caribbean Basin Initiative. Rather than get into the details, because there are other witnesses to be heard today, I would just like to make a plea. The best way that you can make this thing work is to bring about a cease-fire in El Salvador and cease the activities in Nicaragua. For the first time, lead with our strength, our values, and our economic system, because I do not think that Marxist-Leninist rhetoric can compete with it. It never has been able to in the past and I do not think that it will in the future.

When we lead with military aid to a junta in El Salvador, that is questionable. When we lead with the rhetoric we have used against Nicaragua we get these kinds of stories in the newspaper.

[Indicating.]

"Herrera of Venezuela Jumps Ship." He was one of our strongest supporters of our policy in that region. I am supportive of you in this initiative and will be outspoken with my support. I commend you for it, but I would urge that in the quieter moments that we understand what this initiative will mean in the practical sense if the other two issues are not resolved.

I wonder if anyone would like to comment on that statement?

Ambassador STOESSEL. Senator, let me take a crack at that.

I appreciate your support of the general program and I appreciate your concerns about the overall millieu in which it is to be carried forward. We are in the initiative, trying to address those economic and social problems, which I think that everyone sees is at the root of the difficulty in this area.

Economic and social problems which can be exploited by the Marxist-Leninists. We see this happening in a number of countries, not only El Salvador. So we are trying to get at those difficulties and provide an incentive for these countries to help themselves and to raise their living standards and to move in the direction of that stability of which you speak.

We feel that this is the desirable way to go. On El Salvador, we have had a number of discussions about this. We do feel that the central government there, under great difficulty, has been trying to move in the direction of reform, land reform, and economic reform. There will be elections this coming Sunday. We believe that it is along this path that there is the best chance of arriving at a peaceful solution of those problems.

As far as Nicaragua is concerned, as has been pointed out already, we have a small aid program there.

Senator TSONGAS. Let me interrupt you. You do not really believe that the elections on Sunday will settle anything, do you?

Ambassador STOESSEL. I believe that they will represent a step along the way. This afterall is an election for a constituent assembly. It is a beginning of a process of drawing up a constitution after which there will be further elections, further developments in the political process.

Senator DODD. If the gentleman would yield. That is assuming that our guys will win.

Ambassador STOESSEL. I think that remains to be seen.

Senator TSONGAS. There were no questions as to who "Our guys" were, I noticed. [Laughter.]

Ambassador STOESSEL. Those who do come out on top, we hope will follow policies that will be conducive to this process. I think that we will have to see how that works out.

I do not think that anything will be immediately settled on Sunday; no. But it can be the beginning of something that we feel is hopeful.

Senator TSONGAS. I obviously would draw issue with some of that. But the recent stories in the paper about the possibility of Secretary Haig or someone in your shop meeting with the Nicaraguans and perhaps even with Cubans does offer, I think, a glimmer of hope.

I guess it was today's Washington Post article that made reference to that. You cannot lose by it. There is no social disease involved in sitting down with Nicaraguans or Cubans, even, that I am aware of.

Ambassador STOESSEL. No, we are prepared for dialog. We have had dialog in the past, and I am sure that we will have some in the future.

Senator TSONGAS. I suspect that if you can deal with people like me, you can certainly deal with the Nicaraguans. [General laughter.]

Senator DODD. Mr. Chairman, I addressed my questions to Ambassador Brock, earlier. Before Secretary Stoessel leaves, I would like to make a comment or two.

What I do want to know, Mr. Secretary, is that I support this initiative in its broad concept and I commend the administration for doing it. It has been 20 years since we have had anything of this nature.

I agree with you that we may be a day late and a dollar short; I hope that is not the case.

But I think the fact that we are trying to deal with these problems in a more comprehensive fashion than we have in the past is meritorious.

The only thing I would like to say which underscores what has been said here by others, is this, let me try to boil it down to a sentence or two if I can.

I believe that what we need to understand in dealing with Central America and the Caribbean Basin, in fact, all of Latin America, but particularly in Central America and the Caribbean Basin is that first, foremost and always, we need to understand that the problems in that part of the world are fundamentally political.

If we fail to take that into consideration as our first priority, economic assistance, be it in the form of a Caribbean Basin Initiative or something else is going to be almost ineffective, if not totally ineffective. We must not fail to understand that we need to deal with the political realities in those countries.

The problems that exist there, we contributed to in some way, by supporting regimes for far too long that did not understand that Marxism and Leninism survive when you have economic and social injustice.

To just underpin economically, governments that only will encourage the kind of activity that we see in El Salvador, is to really pour good money after bad. We need to get our political act together. I think that is what Senator Tsongas was saying. I agree with that. Unless we deal with the political realities and get our political act together, unfortunately a Caribbean Basin Initiative will not mean a whole lot in the final analysis.

The political realities must be dealt with, first and foremost. Thank you, Mr. Chairman.

The CHAIRMAN. Senator Mathias just wanted to make a comment to Ambassador Stoessel.

Senator MATHIAS. Mr. Chairman, I understand Ambassador Stoessel's time problem. But I do want to raise two more questions, one with him and one with Mr. McPherson.

As commendable as this effort is, to address the desperate poverty of the Caribbean Basin area, I want to be clear as to what its real impact on our overall policy is. That is why I think I need to address this question to Ambassador Stoessel.

I said earlier that I feared that this could be a robbing of Peter to pay Paul. To put that in a more serious sense, is this in any sense a deviation, a turning away from the multilateral economic system that has been developed so carefully, over so long a period of time?

By reducing contributions to the multilateral development banks, we are bound to have some adverse impact on the multilateral system of financing development. I am wondering exactly what the proposed reductions in the fund for special operations of the Inter-American Development Bank will mean if we make these offers under the Caribbean Basin Initiative, what kinds of numbers are going to be left for the FSO's?

Ambassador STOESSEL. Senator, I think that perhaps Mr. McPherson, or Mr. Leland are more expert in this area than I am.

Senator MATHIAS. Then I will hold them responsible for the figures, but I am going to hold you responsible for the policy question, because that really is the heart of it.

Ambassador STOESSEL. We do not see this initiative as one that takes away from the role of the contribution of the multilateral institutions. I think that we see the whole program, as I indicated in my remarks, as one which includes very much the contributions from the international financial institutions.

Senator MATHIAS. But if it takes away from their money, it has to decrease their role. What concerns me is if the U.S. contributions to the multilaterals decreased, will not that have the effect of decreasing other contributions, while not necessarily bringing in Canadian, Mexican, and European contributions that would have gone to the InterAmerican Development Bank, but which will not necessarily go to the Caribbean Initiative?

Ambassador STOESSEL. I think it was touched upon earlier, that there was the prospect of graduation of some countries which would result in less overall need. So that if you have a somewhat reduced amount of money, it would be for a reduced number of countries. So that there should not be a negative impact on these particular countries of which we are speaking.

Perhaps Peter or Marc could answer you.

Mr. LELAND. I think, as Ambassador Stoessel says, that is the basic point. This $350 million supplemental was devised because of the need that was there. And it is not just us, as Ambassador Brock said earlier, we are talking about a lot of other countries joining in. And I think that we plan to ask for the other allies to contribute to this particular effort.

Senator MATHIAS. But so far only three have said that they will.

Mr. LELAND. That is true, but we have only just begun.

Senator MATHIAS. And they have not said how much they will——

Mr. LELAND. That is true, but we have just begun and the process, we have to first show our own will and our own commitment. Once we have that then we bring them along. It is a give and take process.

Senator MATHIAS. I do not want to be argumentative about it, but we already have their commitment to put up 60 percent of the FSO money.

Mr. LELAND. The FSO money would not be now anyway. You are talking about the next replenishment which has not yet been negotiated. As you know very well, Senator, it has never been easy to get any of the appropriations for any of the banks through the Congress.

We did an evaluation of the banks, how good they are, how they can be changed, and what amounts of money are necessary. We came up with a policy, which Ambassador Stoessel said involved certain graduations and maturations.

We tried to say that really what we want to do with the FSO and the IDA and the World Bank is concentrate on the poorest countries.

Now, as it happens, in the case of the Caribbean Basin, those countries still are the poorest countries to some degree and they will receive support from the IDB and the World Bank.

Agreed it is not just concessional assistance, that is, grants. They will get loans, but the flow of funds to them will not substantially decrease. Now, if it turns out that our allies say that they prefer to contribute here, we have not negotiated an agreement yet. That is always open to further discussion. But that would not have helped in terms of the $350 million that is needed this year.

Senator MATHIAS. What about the problem that in the FSO, the United States has a veto of any given project? Whereas under the new arrangement, let us say hypothetically, that Mexico said that we will contribute more than we would have to the Inter-American Development Bank but we will contribute it all to Nicaragua.

Mr. LELAND. That is another issue that will have to be weighed into the package. We have not negotiated it yet.

Senator MATHIAS. That is an open question. I know that our time is short, but I do have one question for Peter McPherson.

The CHAIRMAN. The time is really over.

Senator MATHIAS. Let me just put out a question to Peter.

The CHAIRMAN. Secretary Stoessel, you may be excused please.

Senator MATHIAS. The problem with the Caribbean is that people there are wonderful people, tremendously talented people, but there are an awful lot of them.

What is the fate of the population control program in this Caribbean Initiative?

Mr. MCPHERSON. The voluntary family planning program continues to be an important part of what we are doing worldwide. Our fiscal year 1983 request will continue to be at a very substantial level.

We are very interested in continuing to work with the countries of the Caribbean Basin, as well as others on family planning. There is no question in my mind that, of the several factors that have caused the political instability in El Salvador, one was the fact that it is one of the most densely populated countries in Central America.

The last figure that I saw for El Salvador's population growth was something like 3.6 percent. It is rampant.

Senator MATHIAS. That population density has something to do with the socioeconomic problems of the country.

Mr. MCPHERSON. I do not think that there is any question about that, Senator.

Senator MATHIAS. So if we blink and stop looking at the population problems there, there will be more of these centers of social and economic unrest.

Mr. MCPHERSON. Senator, I agree with you.

The CHAIRMAN. Before this panel leaves, I would like to ask one question for the record, not to be answered now.

We have a very special relationship with Puerto Rico. I know that levels to fight for every interest that Puerto Rico has. But I have learned that representatives of the Puerto Rican legislature have maintained that they do not think that there has been enough consultation with them on CBI.

The Puerto Rican Legislature passed a concurrent resolution critical of CBI and asked for certain special provisions for Puerto Rico. They talk about the problems of the employment opportunities that will be lost, investment opportunities that will move away from Puerto Rico to other Caribbean countries that have lower cost labor and less stringent regulation for their industry. Without objection I will ask that the Puerto Rican Legislature's resolution and their study of the impact of the CBI on the Puerto Rican economy be inserted in the record.[1]

Now, I would ask the representatives here from State and from Ambassador Brock's office to advise what consultations have been carried on? What special concerns of Puerto Rico. which is a very special interest to the United States of America, what has been done to keep them fully appraised and keep the CBI a plus for Puerto Rico, and not in any way a minus?

Mr. WALDMANN. Mr. Chairman, I will relay that both to Ambassador Brock and to the State Department.

But I would just like to point out that the White House through its Puerto Rican Task Force and its economic subgroup, did have extensive consultations during this period of development. This included not only the Governor's office, and the mayor's office, but representatives of the legislature, including Senator Agosto, who did propose a series of proposals which were not all that different in substance from proposals that we were also receiving from the other agencies, the other authorities in Puerto Rico.

Mr. LELAND. I would add that for the tax proposals there were a lot of consultations because there are further tax advantages being given to Puerto Rico and the Virgin Islands and these had to be balanced. And so there was a lot of consultation that went into that. But they were very cooperative and helpful in giving us support.

The CHAIRMAN. I know that the Governor is fighting for that interest. Maybe every member of the legislature did not know what he was doing on their behalf.

I thank you for answering that here. We would appreciate amplification for the record. We will keep the record for additional questions and I thank you all, very much.

Senator DODD. Mr. Chairman, can we submit written questions?

The CHAIRMAN. Yes; they can be submitted. I thank you all, very much.

Our next panel is a very distinguished panel. It is a public panel and will consist of the Honorable Carlos Romero-Barcelo, Governor of Puerto Rico; the Honorable Juan Luis, Governor of the Virgin Islands; the Honorable Baltasar Corrada, Resident Commissioner of Puerto Rico; and the Honorable Ron deLugo, Delegate from the Virgin Islands.

May we have the room as quiet as possible, so that we may proceed to hear from our distinguished panel. [Pause.]

It is with great regret that I advise our panel, and it is regret on the one hand but not on the other, because we are honored today to have in the Capitol, His Excellency, the President of Italy, President Pertini and Senator Pell and I are hosting the joint House-Senate luncheon for him today. So we will have to leave.

Senator Mathias, I understand will be back to chair the hearing, but Governor Barcelo we welcome you as a friend. We have great admiration and respect for you and we appreciate your proceeding with your testimony at this time.

---

[1] See p. 96.

STATEMENT OF HON. CARLOS ROMERO-BARCELO, GOVERNOR OF PUERTO RICO

Governor Romero-Barcelo. Thank you, Mr. Chairman. We appreciate the opportunity to appear before the committee to express our views on the Caribbean Basin Initiative.

In sending this legislation, the President believes that the well-being and security of the people of the Caribbean are of vital importance to the United States. I share this belief, therefore, I strongly support the initiative the President is taking to stimulate the economic development of the Caribbean Basin. Moreover, I am hopeful that implementation of these measures will produce material progress for the Caribbean Basin, and that this progress will strengthen private enterprise and help develop strong democratic institutions in the region.

Since the beginning of discussions of measures to help the region, we have insisted that Puerto Rico must play an important role in the development of the Caribbean Basin proposals. It has so been recognized by the White House and the State Department and a close consultation process has developed which represents a renewed awareness of the importance of Puerto Rico and the development of national policy in the Caribbean Basin and the strengthening of relationships in that area. I am also convinced that in this instance the administration has made a genuine attempt to produce a program which will promote the development of the Caribbean Basin and which will also stimulate the development of Puerto Rico.

I would like to take the opportunity at this time, to thank Secretary of State Alexander Haig, and the Trade Representative, Ambassador Bill Brock, for the interest that they have taken, particularly in the past few months. We have had an extensive opportunity to have input into all of the decisions that have been made. Not only that, but we were asked to, and did, participate in discussions internationally and we have taken an important and significant role in the discussions with the other countries.

We met in New York as part of the U.S. delegation with Venezuela, Mexico, Colombia, and Canada.

Notwithstanding the significant and good faith efforts made in this consultative process however, we still seek protection for some items which are important to our continued progress and which we will discuss in this statement.

As several prior witnesses have testified, many Caribbean Basin countries are now facing economic problems of staggering proportions. For example, many of these countries and islands are currently experiencing an unemployment rate in excess of 30 percent; an inflation rate in excess of 30 percent and a very low or even negative growth rate. In turn, these severe economic problems are posing serious pressures on the economic structures and democratic institutions of these countries. In this regard I am sure that I need not remind you of the tragic events now unfolding in El Salvador and Guatemala.

In response to these problems and the dangers that they pose to the interest of our country, the President has proposed a series of measures to stimulate the economic development of the Caribbean Basin through the involvement of the private sector in the belief that economic development of this sort provides the best hope for the continued existence of democratic processes in this region.

For example, the President seeks authority to grant duty free access to the United States for all imports from Caribbean Basin countries, other than textiles and apparel which will be covered by separate textile agreements. The President also proposes to extend the favorable tax treatment now available to fixed-asset investments in the United States—the investment tax credit—to comparable investments in the Caribbean Basin.

In addition, as a result of his consultations with Puerto Rico, the President has advanced a second series of proposals to insure that development incentives for the Caribbean Basin will not interfere with the continued growth of Puerto Rico. For example, to insure that a reduction in the duty of rum will not have an adverse effect on Puerto Rico's revenues, the President proposes to rebate Federal excise taxes collected on imported rum to Puerto Rico. Similarly, to insure that the extension of the investment tax credit to the Caribbean Basin will not reduce the attractiveness of investments in Puerto Rico, as well as to reestablish parity between investment in Puerto Rico and the mainland, the President proposes to extend both the investment tax credit and the accelerated cost recovery system to Puerto Rico.

As I stated at the outset of my testimony, the foregoing measures constitute a significant step toward the goal of insuring that development of the Caribbean Basin will at the same time stimulate further economic development in Puerto Rico. Nevertheless, certain issues such as the bulk shipment of rum and imported processed tuna must still be addressed.

Under the administration proposal, if the duty on rum is eliminated, Puerto Rico will receive a share of the excise taxes collected with respect to imported rum based on a formula yet to be determined. This proposal will insure that the revenues the Puerto Rican Government now derives from rum excise taxes will not be reduced. This proposal will not, however, protect Puerto Rico's rum industry, or the jobs that industry provides for the people of Puerto Rico.

Protection of this nature can only be provided if the bill before you is amended to prohibit bulk shipments of rum into the United States from foreign countries. In other words, allow bottled rum, but not bulk rum, to be shipped tax free of tariffs. Currently, bulk rum shipments from Caribbean areas other than Puerto Rico and the Virgin Islands are now being made to the United States.

Similarly, since Puerto Rico's industries are subject to extensive Federal regulation, while those of Caribbean Basin countries are not, consideration also should be given to an exemption from the duty free treatment of canned tuna now being processed in places outside of the United States. Puerto Rico's processed tuna industry presently accounts for over 40 percent of all the mainland production. Tuna fishermen who must use U.S. flag vessels face much higher fuel, labor and operating costs than their Caribbean Basin competitors. Similarly, Puerto Rican processing plants are subject to much more stringent environmental, health and safety regulations as well as higher labor and operating costs.

Accordingly, if the duty on processed tuna is eliminated, tuna producers in the Caribbean Basin countries will be able to undersell Puerto

Rican producers, principally because of the differences in the regulatory climates under which they operate. This will also affect the tuna canning plants in San Diego and the California area which also provide a substantial amount of the tuna consumed in the Nation.

When you think of the Caribbean Islands, you must remember also, that the Caribbean Basin Initiative includes Central American countries and processing plants could be established in any of the Caribbean Basin countries on the Pacific side. Notwithstanding these qualifications, I want to reiterate my support for the President's Caribbean Basin program as well as my appreciation for the manner in which it was developed.

I also want to assure you that the people of Puerto Rico stand ready to assist the Nation in any way that they can in achieving the objectives of the Caribbean Basin program. Furthermore, based on my conversations with the administration, I feel confident in saying that we are going to be making a very significant contribution to this effort.

Thirty years ago, Puerto Rico was very poor, as poor as many of the Caribbean Basin countries are now. In the intervening period, using the same tools, trade, aid and investment, which the President proposes to use in the Caribbean Basin Initiative, the people of Puerto Rico have made substantial economic progress. Although, the standard of living that our people enjoy is still lower than that of any State, it is also higher than that of any other Caribbean Basin country.

As a matter of fact, it has the highest standard of living south of the Rio Grande. Moreover, our economic progress has been made in the context of Democratic institutions and has further strengthened those same institutions. Thus, in a sense, Puerto Rico's recent experience demonstrates that programs like the Caribbean Basin Initiative can succeed. Already skeptics in certain headquarters are predicting that the Caribbean Basin Initiative is doomed to failure.

In response, the people of Puerto Rico are proud to offer their experience as proof that developing countries can achieve economic progress without sacrificing their Democratic ideals. We are uniquely qualified for this role as advocates of the Caribbean Basin plan, not only by our history of economic development but also by the cultural heritage that we share with the other peoples of the Caribbean Basin and the contacts that we have developed in this region over the years.

One aspect of the President's program expressly recognizes the special contribution that Puerto Rico can make in the Caribbean Basin. To further the integrated agricultural development of the region, the President proposes to make additional use of the agricultural research and training facilities of Puerto Rico, particularly the tropical agricultural research facility at Mayaguez.

Moreover, in our consultations with the administration we have been assured that the other capabilities of our people, in areas such as education and health, transportation, energy, communication, and commerce and banking will be used.

In closing, I would like to make one other point. Economic development is clearly important for the preservation of Democratic institutions in developing countries. In the Caribbean Basin, however, economic development alone will not be enough. Economic development must be accompanied by better health, medical and hospital services, better and more education, comprehensive vocational and training programs, as well as a strengthening of an official sense of social justice.

These must also be coupled with a desire to guarantee more opportunities for those for whom they have not been made available. Neither peace nor economic political stability, nor social justice is possible until the population in the rural areas, in the slums, in the Indian groups, the growing middle class and business groups can count on fair, just, and equal application of their own laws and a better distribution of the wealth and the opportunities. It is in the implementation of this aspect of the plan, that Puerto Rico's contribution can be most meaningful.

I thank you for the opportunity to be here today.

The CHAIRMAN. Governor Romero, we thank you, very much.

May I turn to Senator Pell for a very short statement?

Senator PELL. Thank you, Mr. Chairman.

I would just ask an unanimous consent to have inserted into the record the resolution of the legislature of Puerto Rico because I understand that they have a different view from the Governor. I think that both viewpoints should be addressed and I am sure that they will be.

The CHAIRMAN. Thank you, very much. We had referred to that material earlier. It will be inserted into the record at this point.

[The material referred to above follows:]

9th Legislature—2d Ordinary Session

HOUSE OF REPRESENTATIVES

[H. C. R. 22—March 21, 1982]

Introduced by Representatives Colberg-Ramírez, Santiago-García, Jarabo, Acevedo-Lazzarini Arrarás, Calero-Bermúdez Carmona-Rivera Cepeda-García, Coca-Navas, Corujo-Collazo Figueroa-Hernández, González-Cruz, Jiménez-Meléndez López-Galarza, López-Hernández, Muñoz-Arjona Peña-Quiñones Pérez-Rivera, Ramírez, Rosa- Guzmán Rosado-Báez, Soriano-González Tirado-Delgado, Torres-Santiago, Mme. Vélez-de Acevedo, and Mr. Zayas-Bonilla.

Referred to the Committees on Government and on Constitutional Revision.

"CONCURRENT RESOLUTION

"To express the sense of the Legislature of the Commonwealth of Puerto Rico on President Reagan's Caribbean Basin Initiative; to petition the President and the Congress of the United States for the approval of certain measures for the benefit and prosperity of Puerto Rico; and to claim recognition by the President and the Congress of the United States of certain rights and powers of the People of Puerto Rico."

STATEMENT OF MOTIVES

Whereas: On February 24, 1982, the President of the United States announced his program for the Caribbean before the Organization of American States in Washington, D.C. and made public its contents under the title "Contents of the Caribbean Basin Initiative". The key points of the program consist of granting one-way free trade to the countries of the Caribbean and stimulating, by means of tax and other incentives the investment of U.S. funds in these countries;

Whereas: The sixth point in the President's program reads as follows: "Sixth, given our special, valued, relationship with Puerto Rico and the U.S. Virgin Islands we will propose special measures to ensure that they also will benefit and prosper from this program. With their strong traditions of democracy and free-enterprise, they can play leading roles in the development of the area."

Whereas: The President included in his program a series of measures intended to offset and compensate for the possible negative effects on Puerto Rico of the Caribbean Initiative and to improve Puerto Rico's economy and make it prosper;

Whereas: The Governor of Puerto Rico, Carlos Romero-Barceló; the President of the Senate of Puerto Rico, Miguel Hernández Agosto; the Mayor of San Juan, Hernán Padilla, each presented to the administration a series of concrete measures aimed at effectively offsetting the possible negative effects of the Caribbean Initiative and to improve the Puerto Rican economy and make it prosper;

Whereas: The representatives of the Executive and Legislative powers of Puerto Rico submitted to the administration more than 25 substantial measures to be included as part of the Caribbean Initiative, with the purpose of offsetting the negative effects of the Initiative and of improving the economy of Puerto Rico; and the administration rejected all but one substantial measure, which extended additional tax benefits to investments in Puerto Rico. It offered to consider other less significant measures;

Whereas: On March 4, 1982 both chambers of the Legislature of Puerto Rico approved resolutions creating a special Joint Committee to study the impact of the Caribbean Initiative on the economic, social, and political life of the Puerto Rican people, through testimony of the Puerto Rican community before the Committee, as represented by economists, farmers, industrial executives, labor leaders, teachers, the presidents of all political parties and former governors of Puerto Rico, religious leaders and other interested citizens;

Whereas: The Special Joint Committee, on the basis of public hearings and other information, has arrived at the following conclusions:

1. The economy of Puerto Rico at present is depressed and structurally weak, as reflected in these economic indicators:
   (a) Chronic unemployment, at about 20 percent.
   (b) Over 40 percent of young people, between 16 and 24 years of age, is unable to find work;
   (c) Negative rate of personal savings;
   (d) Declining private investment in plant and equipment relative to net product; and
   (e) Virtual standstill in the construction activity.
2. When the reduction in federal funds takes full effect, it will worsen the present economic situation substantially.
3. The one-way free trade arrangement provided for in the Caribbean Initiative will have a severe and adverse effect on the most vulnerable sectors of the Puerto Rican economy: those employing the majority of workers, particularly, agriculture, food processing and the manufacture of selected electric and electronic products.
4. The combination of a weak economic condition with the reduction in federal funds not only will prevent offsetting the adverse effects of the Caribbean Initiative, but will render impossible the long range restructuring and development of our economy.
5. The measures proposed by the President for Puerto Rico are insufficient to offset the adverse effect of the trade concessions and incentives granted to Puerto Rico's Caribbean neighbors.
6. The measure proposed for Puerto Rico in the Caribbean Basin Initiative offer no prospect of promoting the prosperity and development of the economy of Puerto Rico.
7. In summary, the Caribbean Initiative will represent a setback in the development of Puerto Rico's economy which will increase unemployment, paralyze industrial development, destroy agricultural production, weaken the Puerto Rican labor movement, and provoke frustration and unrest among unemployed youths in Puerto Rico. The clearly-predictable result will be the chaos and social and political instability that inevitably accompany extreme poverty, and the resulting inability of the poor to provide for their needs and those of their families.
8. Although Puerto Rico is in a stage of economic development which is more advanced than the countries benefitted by the Caribbean Initiative, unlike the United States, Puerto Rico is still a developing country which needs the power to control imports to its markets while its local industry develops and becomes more efficient. Puerto Rico's competitors in the Caribbean have this power, while Puerto Rico lacks it.

Whereas the public hearings held by this Legislature for the study of the Caribbean initiative revealed that there is a large measure of consensus and basic agreement between the different political, economic and social sectors of the Puerto Rican Community. The requests for measures and the claims of rights and powers which this Resolution presents to the President and the Congress of the United States are based on these basic agreements and consensus.

Whereas: The Legislature of Puerto Rico takes exception to President Reagan's statement that he has consulted Puerto Rico. The Federal Administration's cosultation has been with officials of the Executive and Legislative Branches of Puerto Rico, so that the latter could present comments and suggestions to the original proposal. With regard to the recommendations of the Honorable Governor Carlos Romero-Barceló, the Honorable Mayor, Hernán Padilla and the Honorable President of the Senate, Miguel Hernández-Agosto, the Puerto Rican community has had no opportunity to become acquainted with them and express their opinions. The only attempt at public discussions of the problems that the Caribbean Initiative raises for Puerto Rico have been the public hearing and the discussion promoted by the Legislature.

Whereas: The Legislature, faithful to its historical and legal tradition of acting as Spokesman for the People of Puerto Rico before the People and the Congress of the United States must exercise its responsibility of bringing before the President and the Congress of the United States, Puerto Rico's claims concerning the threat to its political, economic and social stability which the Caribbean Basin Initiative poses.

Whereas: The Legislature of Puerto Rico understands that the treatment given Puerto Rico within the context of the Caribbean Basin Initiative is exceedingly unjust for the Island for the adverse effects which could be derived therefrom, places Puerto Rico at a historical crossroads, which requires that the Puerto Rican people set forth before the Congress, clearly and unequivocally, our people's indignation in the face of such unjust treatment: Now, therefore, be it

Resolved by the Legislature of Puerto Rico: To express its feelings on President Reagan's Caribbean Initiative and petition the Congress of the United States that when considering the Caribbean Initiative, it heeds the claims of the People of Puerto Rico presented to the Congress through this Resolution.

1. The Legislature of Puerto Rico, in solidarity with the aspirations of the Caribbean Nations to achieve economic, social, and political development within a democratic system, expresses its support of the President of the United States' objectives as set forth in his Caribbean Basin Initiative, of promoting the political stability of the Caribbean by means of economic development. The Legislature, likewise, supports the President's objective that Puerto Rico and the U.S. Virgin Islands also will "benefit and prosper" as a result of his program.

2. To offset the harmful effects of the Caribbean Basin Initiative, and so that the objective of "benefit and prosperity" may be attained, the Legislature hereby appears before the Congress to claim the measures, the rights and the powers specified hereinbelow:

Claim 1

Grant Puerto Rico power to impose tariffs and other controls on imports of products from foreign countries.

Claim 2

Recognize Puerto Rico's power to enter into bilateral and multilateral trade agreements with other countries as it has been recognized in the areas of culture, technology and sports.

Claim 3

Grant Puerto Rico the power to control shipments of products to protect the local farm production for the time it needs to develop a competitive basis.

Claim 4

Modify the Foraker Act and the Jones Act of 1920, to permit Puerto Rico to use foreign flag vessels in its trade with the United States.

Claim 5

Federal Aid should be granted in the form of block grants which Puerto Rico, through its Executive and Legislative powers, can use for the reconstruction of its economy and for its development on a long-term basis.

Claim 6

Assist Puerto Rico's tourist industry:

(a) By eliminating the 24 hour limit on the time cruise-ship passengers may remain in the ports of San Juan, Ponce, Mayaguez, and any others that may be established in the future;

(b) By permitting foreign cruise ships to transport passengers between San Juan, Ponce, Mayaguez, and other United States ports;

(c) By eliminating import duties on goods purchased by tourists in Puerto Rico.

Claim 7

Stimulate investment by Section 936 companies in Puerto Rico, by the:

(a) Extension to them of the Accelerated Cost Recovery System and the investment Tax Credits providing for the transfer of the benefits thereof to their mainland parents;

(b) Authorization to include the costs of training, in the computation of net income under Section 936; and

(c) Prompt resolution of the questions concerning the valuation of research and development costs for the purpose of determining transfer prices to be used in the computation of net income under Section 936.

Claim 8

Exclude rum from the one-way free trade arrangement proposed by the Caribbean Initiative.

Claim 9

Exclude from the one-way free trade arrangement proposed in the Caribbean Initiative, those products which are important to the economy of Puerto Rico, such as, but not limited to electrical and electronics products, pineapple, and tuna before it becomes necessary to prove that serious injury has occurred to Puerto Rican industry.

Claim 10

Expand air routes served by American and foreign airlines between San Juan and foreign countries.

Claim 11

Establish centers for vocational training, higher education, and business and professional training in Puerto Rico for the benefit of the Caribbean.

Claim 12

Provide assistance for specific agricultural projects, such as, for example, growing sugar cane for the production of molasses for use by the Puerto Rican rum industry, and the development of alternate sources of energy.

Claim 13

Establish separate quotas for Puerto Rico and the United States when setting beef-import quotas.

Claim 14

Caribbean Basin countries shall not be given more favorable treatment in bilateral and multilateral agreements on imports of textile and apparel products made in the United States.

Claim 15

Include Puerto Rico on a nondiscriminatory basis in federal programs, such as: (a) federal government procurement, (b) location and expansion of federal offices and installations.

3. This Resolution is the urgent efforts of our Legislature to protect the interests of Puerto Rico and the claims of the rights and powers that belong to Puerto Rico within the framework of the problems aggravated by the Caribbean Initiative. The Legislature feels that this is only one stage in the discussion of the problem, and proposes to initiate a process of consulting the various political sectors of the Puerto Rican community, to reach a consensus on the procedure that will allow the People of Puerto Rico to express to the Congress and to the President of the United States, their will with regard to the political, economic and

social relationship between the People of the United States and the People of Puerto Rico.

4. To designate a delegation composed by the President of each Chamber of the Legislature, to appear before the Congress and its Committees, present a copy of this Resolution translated into English, and to urge the approval of the claims set forth herein.

5. To send a copy of this Resolution translated into English to the President of the United States.

Yo, Julio M. García Passalacqua, Secretario
de la Cámara de Representantes de Puerto Rico

CERTIFICO

que la presente es copia fiel y exacta
del texto aprobado en Votación Final de la

Capitolio ______

SECRETARIO

Expected Impact on Puerto Rico of the Caribbean Basin Initiative

INTRODUCTION AND SUMMARY

The Legislative Assembly of the Commonwealth of Puerto Rico held hearings before a Special Joint Commission to determine the "expected impact of the Caribbean Basin Initiative on the economic, social, and political life of the people of Puerto Rico". Between March 12, 1982 and March 19, 1982, the Commission heard members of the Puerto Rican community discuss how President Reagan's proposed program for other Caribbean countries would affect particular aspects of life in Puerto Rico. The statements of many of these speakers also covered the adequacy and applicability of President Reagan's proposed measures for Puerto Rico.

There was a strong consensus among witnesses, both with respect to the impact—it will be adverse—and reasons why Puerto Rico will find it extremely difficult to offset or to recover from the adverse effects. The reasoning is summarized as follows:

The economy of Puerto Rico is structurally weak.

Current weakness is manifest in a persistently high rate of unemployment—currently over twenty percent.

Long-term problems are indicated by:

A very small proportion of the population participating in the labor force.

Low or negative rates of net investment in productive facilities relative to net product.

The current federal fiscal policy is draining the resources which Puerto Rico needs to correct its structural economic problems.

The agricultural sector of Puerto Rico is similar to that of Caribbean Basin countries and dissimilar to that of the United States:

Caribbean Basin country exports of tropical fruits and vegetables will compete directly with Puerto Rican products in mainland markets.

Numerous Caribbean food products will be exported primarily to Puerto Rico, not the mainland, thereby impeding Puerto Rico's attempts to reduce its dependence on food imports.

The manufactured products Caribbean countries are best able to produce and export are highly labor-intensive. Production in these countries is likely to replace Puerto Rican production. The result will be reflected directly in higher rates of unemployment in Puerto Rico.

Without an adequate domestic supply of molasses, Puerto Rican rum producers will be unable to compete for sales in mainland markets if the United States duty on rum is removed. The result will be the loss of an industry that is the source of pride and tradition in Puerto Rico.

The measures for Puerto Rico proposed by President Reagan are inadequate to offset the anticipated injury to Puerto Rico or "to promote economic revitalization and facilitate expansion of economic opportunity" in Puerto Rico:

> Rebate to Puerto Rico of excise taxes on imported rum is a form of federal handout that will not save jobs, promote economic development, or promote self-respect.
>
> Federal "advice and assistance" on tropical agriculture and forestry research will not facilitate Puerto Rico's intensive efforts to produce its own food.
>
> Extension of investment tax credits and accelerated cost recovery to firms in Puerto Rico may serve to keep capital-intensive businesses here, but is unlikely to absorb the large number of persons unemployed by the other proposals in the President's Caribbean Basin program.
>
> Safeguard investigations of Puerto Rican industries *after* serious injury has been inflicted are meaningless. Once firms have left Puerto Rico and relocated elsewhere, they are unlikely to return.

The combination of Puerto Rico's structural problems plus those problems created by federal fiscal policies renders the Puerto Rican economy incapable of absorbing the adverse impact of the Caribbean Basin Initiative program. As a consequence, unemployment will continue to increase, bringing with it frustration, anger, and social unrest, particularly when a whole generation of young people can find no productive activity. The alternative is wholesale migration to the States.

In the remainder of this report, the facts and opinions brought out in the testimony are summarized and put into the context of Puerto Rico's current economic situation. Particular emphasis is on testimony concerning the economic and social consequences of the Caribbean Basin Initiative.

I. STRUCTURAL ECONOMIC WEAKNESS

The economy of Puerto Rico is weak. At present, this weakness is seen most vividly in high and persistent unemployment. Witnesses at the hearings of the Special Joint Committee explained that the underlying structural problems are not short-term, but can be expected to continue, absent a concerted effort to redirect the Puerto Rican economy. In their view, the Caribbean Basin Initiative will limit Puerto Rico's ability to restructure and, at the same time, will impede any efforts to do so.

Unemployment today

Puerto Rico's highly successful economic development plan of the 1950's brought the average level of unemployment down to 10 to 12 percent. Today, the official rate of unemployment is over 20 percent.

Having 20 percent of your labor force unemployed presents serious economic and social problems to any society at any time. The severity is accentuated in Puerto Rico because of the unusually low rate of participation in the labor force. Only 30 percent of the Puerto Rican population is working or actively seeking work. The ratio for the United States as a whole is closer to 50 percent.

This combination of high unemployment and low activity leads to the fact that fewer than one-quarter of the Puerto Rican population is employed. Thus, the loss of a job by one Puerto Rican leaves four people without support.

Economists are in general agreement that the underlying cause of unemployment in Puerto Rico is the change in the structure of the economy. The current economic recession only aggravates an existing condition.

Structural problems are common to developing countries. As industrialization advances, the traditional low skilled, highly labor-intensive activities decline and more capital-intensive activities requiring higher levels of education and training replace them. Since the newer activities require less labor, they must grow at a faster rate than traditional activities decline in order to prevent rising unemployment. This balance was fairly well maintained in Puerto Rico until the early 1970's. While the average level of unemployment was 10 to 12 percent, it was not increasing.

In the 1970's, the balance was upset. Costs of production rose unusually fast in Puerto Rico for energy and for labor. As a result, the loss of jobs in labor-intensive industries, such as apparel, accelerated and new industries could not aborb all of the displaced workers.

The magnitude of the imbalance was concealed for several years because the public sector hired increasing numbers of workers. Because 1970 and 1980, the government of Puerto Rico provided jobs for 140,000 workers. This was equivalent to over one-third of the additions to the Puerto Rican labor force during the 1970's. Many of these jobs were funded with federal aid, for example, CETA public service employment and employment administering federal programs such as food stamps.

The decline in federal funding now in process has added to unemployment today. A recent report showed that there was an 8.5 percent decline in public service employment between the end of 1980 and the end of 1981. With federal fiscal policy becoming more restrictive, it is anticipated that government jobs in Puerto Rico will not increase in the foreseeable future. As brought out by economist Elías R. Gutiérrez, federal fiscal policies hasten the deterioration of the Puerto Rican economy.

Long-range outlook

The effects of a severe reduction in federal funds and a prolonged period of high unemployment tend to be cumulative. When combined with the particularly high rate of unemployment among young people and the low level of private investment in productive facilities, the outlook for an early recovery is bleak.

In late 1981, nearly half of the young men in Puerto Rico and one-third of the young women who were seeking jobs could not find work. These young people, between 16 and 24 years of age, are starting their working lives with no work experience, no job discipline, and soon little or no respect for an economy and society that keeps them idle. With extended unemployment, their capabilities and willingness to contribute to Puerto Rico in the future will be diminished.

The other aspects of the Puerto Rican economy that will impede long-term progress are the negative rate of personal savings and declining rate of private investment. Professor Alfredo González Martínez, Professor of Economics at the University of Puerto Rico in Mayaguez, emphasized the importance of these deficiencies. With respect to personal savings, Professor Martínez explained that through years of prosperity, the incomes and standard of living of Puerto Rican people rose. Then, when work became scarcer and inflation eroded buying power, the habit of buying did not change. The use of credit rose to finance consumer products. The result has been a negative rate of personal savings and a drain on funds that might otherwise be used for investment in productive plant and equipment.

High rates of interest on short-term investments also have been drawn funds from investment in fixed plant and equipment. In fact, Professor González Martínez explained, the ratio of fixed capital investment relative to net product has been falling. Old plant and equipment is not being replaced at the same rate it is wearing out. Thus, future economic recovery will be hindered by lack of productive capacity.

II. THE CARIBBEAN BASIN INITIATIVE: ADVERSE EFFECTS ON PUERTO RICO

Virtually every businessperson, economist, and government official who has examined the Caribbean Basin program has stated that it will have an adverse impact on the Puerto Rican economy. During the hearings before the Special Joint Commission, many statements were made and read. Among these were the following:

Letter from Mr. Richard Williamson, Assistant to the President for Inter-Governmental Affairs, Office of the White House.
Trade Policy Committee of the United States Special Trade Representative.
Governor Romero-Barceló.
Mayor Hernán Padilla.
Senator Hernández Agosto.
Puerto Rican Manufacturers' Association.

Dr. Elías R. Gutiérrez.
Association of Puerto Rican Producers.
Puerto Rican Milk Producers' Association.
International Brotherhood of Teamsters, Local 901.
Puerto Rican Workers' Syndicate.
Senator Francisco Aponte Pérez.
Former Governor Roberto Sánchez Vilella.
Former Governor Rafael Hernández Colón.
Reverend David Pérez Colón.
Former Secretary of State Guillermo Irizarry.
Dr. Arturo Morales Carrión, former U.S. Assistant Secretary of State for Latin America Affairs; former President of the University of Puerto Rico.
Antonio González Chapel, former Secretary of Agriculture.
Alfredo González Martínez, Professor of Economics of University of Puerto Rico at Mayaguez.
Dr. Antonio González, former Dean of Social Science of University of Puerto Rico, economist and former President of Puerto Rico Union Party.
Attorney Juan Manuel García Passalacqua, Member of the Constitutional Commission of the Puerto Rico Bar Association.
Professor Luis Passalacqua Christian, International Law Professor, University of Puerto Rico.
Dr. José Joaquín Villamil, Economist.
José Olivari, former Secretary of Agriculture.
Professor Adrián Díaz Ruiz, University of Puerto Rico, Economist.
Francisco Pujols, Executive Director, American Express, Puerto Rico.
Carmen Gautier Mayoral, Professor of Government and Expert in International Relations.
Pedro González, C.P.A.
Professor Angel Calderón Cruz, Director of Caribbean Studies, Institute of University of Puerto Rico.
Attorney Juan Mari Bras, Secretary General of the Puerto Rico Socialist Party.
Attorney Rubén Berríos Martínez, President of the Puerto Rico Independence Party.
Mon. Héctor M. Rivera, Auxiliary Bishop of San Juan.
League of Cooperatives.

The component of the Caribbean Basin Initiative that is expected to injure Puerto Rico the most is the one-way Free Trade Arrangement. At their present stage of development. Caribbean Basin countries will concentrate production and exports on agriculture, processed foods and related products, and on manufactured products requiring substantial amounts of unskilled labor. Each of these areas is discussed below in a separate section.

The combination of structural weakness in Puerto Rico's economy plus federal fiscal policy will preclude economic responses that would allow Puerto Rico to absorb the anticipated adverse effects.

President Reagan has proposed measures to help Puerto Rico and the U.S. Virgin Islands. Most of the witnesses were forthright in denouncing these measures as inadequate to promote economic prosperity in Puerto Rico. In fact the proposed measures would not even compensate Puerto Rico for injury done by the Caribbean Basin program, so that the Puerto Rican economy will regress rather than progress.

III. AGRICULTURE

Agriculture is the backbone of the economies of most of the Caribbean countries and accounts for the largest share of their exports. Having the same climate and growing conditions and often similar cultural backgrounds, these countries and Puerto Rico produce many of the same food products. Many of these products are not grown on the mainland United States.

Puerto Rico already has lost sales in the United States mainland markets. Under multilateral trade negotiations and the Generalized System of Preferences, Caribbean countries have been granted duty-free access to the United States for many products, but particularly those not grown on the mainland. The products protected from past trade concessions generally have been those important to farmers in the States—sugar, beef, avocados, tobacco. Some concessions have been granted on competitive fruits and vegetables, but the lower duties are applicable only during offseason for mainland crops.

The United States now is seeking to give developing countries in the Caribbean more and larger trade concessions. Based on past experience, Puerto Rico will face a substantial increase in imported agricultural products. This will reduce Puerto Rico's shipments to the United States. But, even more important, since the duty cuts apply equally to products entering the Commonwealth, the impact will be particularly hard on Puerto Rican farmers selling in their local markets. In this situation, the attempt by the United States to help its neighbors can have a direct and severely adverse effect on the economy of Puerto Rico. This conclusion was explicit in the testimony of Puerto Rican agricultural experts.

Puerto Rican agricultural development

In the process of establishing a viable industrial sector, the structure of the Commonwealth's output has changed, with the share contributed by agriculture declining significantly. In 1950, agriculture comprised 11.5 percent of gross product. By the 1970's, agriculture's share had fallen to just over 3 percent.

During this 30-year span, Puerto Rico's population continued to grow, as did per capita income. A rising standard of living brought with it a demand for more and more varied food. Professor González Martinez also cited the widespread use of food stamps in Puerto Rico as a stimulous to food consumption.

At the present time, the value of domestic agricultural production is rising less than 15 percent per year while the value of food consumed is growing at an annual rate of over 20 percent. Under the most favorable conditions, this situation is unstable. Without adequate production of food to feed larger urban populations, Puerto Rico has been unable to sustain the spectacular economic growth that characterized its economy in the past.

Puerto Rico's lagging agricultural sector has necessitated the use of scarce capital to import food rather than raw materials and capital equipment. This hinders development by failing to support the growth of population and income in rural and urban sectors. First, widespread unemployment and lower incomes persist in the farm sector. Since income in the rural sector is low, the industrial sector has a much lower local demand for its products. Next, the need to import large quantities of food—over 80 percent of domestic consumption—expands the growing trade deficit, thus imposing a large and growing burden on the economy. And third, agriculture still employs 43,000 workers; alternative employment for these Puerto Ricans is unlikely to be found.

Exports to Puerto Rico

As Caribbean countries increase their capacity to export under the impetus of one-way free trade, they are likely to concentrate on Puerto Rico. Agricultural exports in Puerto Rico have testified that many of the products that will be imported duty-free into the United States are foods that are consumed primarily by Puerto Ricans, whether in Puerto Rico or on the mainland. Among the products listed by Antonio González Chapel, former Secretary of Agriculture, were plantains, coffee, and various root vegetables.

In the case of products produced both in Puerto Rico and on the mainland and for which there is a Commonwealth market, trade concessions are likely to have their major impact on the Commonwealth, not on the mainland. The principal reasons are: (a) the shorter distance to Puerto Rico makes the Commonwealth a more attractive market for these countries, and (b) the enormous difference in size between the mainland and Puerto Rico makes marketing and distribution less complex and less costly in Puerto Rico.

The effect on the agricultural development program in Puerto Rico could be disastrous since many of the products that will enter duty-free are those on which Puerto Rico is concentrating, in its current 12-year Plan for a Modern Agriculture. This Plan, started in 1977 to reduce Puerto Rico's dependence on imported food, includes a Truck-Farming Program. Among the fruits and vegetables covered by this program are tomatoes, peppers, eggplant, papaya, cantalope, and sweet potatoes. Most of these products have been protected from past trade concessions, but now would be subject to free trade. Puerto Rico will have a difficult, if not impossible, task in competing in its local markets.

The recommendation of numerous witnesses was that some means be used to protect Puerto Rico's local agricultural sector until it reaches efficient size. Among the alternatives suggested were the following:

Grant Puerto Rico authority to control imports into Puerto Rican markets either by tariffs or other controls.

Exempt agricultural products important to development in Puerto Rico from duty-free status.

Exempt agricultural products important to development in Puerto Rico from duty-free status when exported to Puerto Rico.

Meat import quotas

A pointed example of the disproportionate impact on Puerto Rico of federal trade policies is the effect of the Meat Import Law of 1964. Under this law, United States imports of fresh, chilled, or frozen meat may be limited in any year when estimates of such imports exceed an amount determined by formula.

United States imports from Caribbean countries account for less than 15 percent of total U.S. imports, including those into Puerto Rico, but they comprise over 95 percent of foreign beef imported into the Commonwealth. One reason is that the quality of Central American beef products is the same as that of Puerto Rican, so they are directly competitive, whereas mainland beef is higher quality. Another reason is the relatively high prices for beef in Puerto Rico due to the high cost of imported feeds and the lower scale of operation. This may make sales in Puerto Rico more profitable. Beef imported into Puerto Rico often sells at a higher unit value than beef imported into the rest of the United States.

When the United States limits its beef imports from every country, the Central American countries are more likely to ship their quotas to Puerto Rico than the mainland. This occurred in 1975 when import restrictions were imposed. Exports from Caribbean countries to Puerto Rico rose 40.3 percent, while exports to the United States, excluding Puerto Rico, increased only 5.7 percent.

Each of the Central American countries has had restrictions on imports of foreign beef and dairy products and on the export of domestic cattle. High import duties, export licenses, exchange controls, and advanced deposits are some of the restrictions employed to aid their industries. Nicaragua, for example, has been a consistent exporter of beef to Puerto Rico. All beef trade in Nicaragua, internal and external, has been controlled by a central agency. Beef has been imported only when domestic production is inadequate to meet demand. The export of cattle also has been regulated by this agency.

Puerto Rico has virtually no control over beef imports. The Commonwealth is unable to protect its own beef market from foreign imports in order to give its industry an opportunity to grow and become more productive.

By directing a large proportion of Central American beef exports to Puerto Rico, the U.S. meat quota regulations adversely affect Puerto Rican production. To alleviate the problem, United States meat quotas should be calculated separately for Puerto Rico and for the mainland. This would allow Puerto Rico to control beef imports at a rate consonant with the need to supplement local production.

Poultry and eggs

For some agricultural products, competition in Puerto Rico is primarily from mainland producers rather than from other Caribbean countries. Important examples brought out in the hearings were poultry and eggs.

Puerto Rico's consumption of poultry doubled during the 1970's. Through private and government efforts, local production was increased even more, 135 percent between 1979 and 1980. However, Puerto Rico still produces only one-third of its poultry needs. The rest is imported from the U.S. mainland.

The poultry industry is well-suited to Puerto Rico since it has high productivity per unit of land and can be operated by family groups. To be cost- competitive, according to Antonio González Chapel, a critical efficient size must be reached. Puetro Rico is striving to combine family groups under centralized management to achieve this size. In addition, local production of feed has been started in order to lower costs.

Further success in the island's poultry and egg development program requires time for farms to expand and reach efficient size. Antonio González Chapel contends that this will not occur as long as cheap poultry and eggs are shipped from mainland processors that have already reached efficient size. Puerto Rico needs authority to limit shipments from the mainland in order to give its industry an opportunity to reach a productive, competitive level. Antonio González Chapel has said that if Puerto Rico could produce the poultry and eggs it consumes, that 6,000 new jobs would be created directly.

If there is fear that the agricultural sector of the island will burden consumers with high food prices, it should be recognized that laws to control imports are largely a legislative matter, that Puerto Rico is as democratic as any place in the world, and that local consumers comprise a vocal and most effective political group.

IV. PROCESSED FOOD AND BEVERAGES

A logical first step in economic industrialization is the processing of agricultural products. Examples are canned fruits and vegetables, meat and fish products, beverages, and bakery and confectionary products.

Over 23,000 workers are employed in Puerto Rico in food and beverage processing operations. Certainly many of these jobs will be lost as Caribbean sales in mainland United States markets replace Puerto Rican sales. Two products of particular concern to Puerto Rico are rum and tunafish.

Rum

Puerto Rico is the largest producer of rum in the world. Over 95 percent of production is consumed in the United States. Puerto Rico's sale of rum in the United States has an economic importance to the Puerto Rican economy beyond direct employment and income. The excise taxes collected on sales of Puerto Rican rum in the United States contribute 10 percent of the total receipts of the Commonwealth government. This source of revenue has grown fairly steadily, despite the fact that there is no adjustment for inflation, that is, the tax is not levied as a percent of the price. A reduction in this income could severely damage the Puerto Rican economy, coming at a time when government receipts already are declining due to federal cutbacks and recessionary pressures. Thus, any adverse impact on the rum industry reverberates throughout the whole economy.

Of all concessions proposed in the Caribbean Basin Initiative, that on rum has the greatest potential for economic injury to Puerto Rico. The import duty on rum offsets externally imposed costs that cause Puerto Rican rum to be more costly. One such cost is that required to meet environmental regulations in Puerto Rico. A second, and more significant cost, is the freight paid on importing molasses, the main ingredient of rum.

Over 80 percent of the molasses used by the Puerto Rican rum industry is imported. The largest source is the Dominican Republic. Other suppliers are in Honduras, Jamaica, Barbados, and Trinidad, i.e., all countries that produce sugar cane. The cost of transporting molasses from these Caribbean countries adds 10 to 30 percent to the cost of a gallon of molasses, depending on the current price per gallon.

Puerto Rico is as concerned about the reliability of its supply of imported molasses as it is about the cost. The major suppliers of molasses Dominican Republic and Jamaica, alo export rum to the United States in competition with Puerto Rico. With duty-free access to United States rum markets, these competitors, as well as other producers of sugar cane, are likely to reserve their molasses production for their own use in producing rum. President Reagan's suggestion that the administration encourage molasses suppliers to continue selling to Puerto Rico is not a guarantee that these suppliers will agree, or for how long they might agree.

If the rum industry is to be viable in the future, Puerto Rico must continue efforts to expand its supply of domestic molasses. One possibility is that rather than provide Puerto Rico with non-specific assistance for research and development in tropical agriculture, as proposed by President Reagan, that federal aid could be directed to an immediate and specific problem—development of sugar cane for the primary purpose of producing molasses for the Puerto Rican rum industry.

Foreign rum imports already have begun to increase, spurred by the United States duty cuts in the 1979 Multilateral Trade Negotiations. If the United States now were to grant duty-free access to its rum markets, distributors of rum imported from beneficiary Caribbean Basin countries would have another $3.00 per case to use to promote their brands in United States markets. Since their costs are already below Puerto Rico's, the $3.00 could be used for advertising and/or to increase wholesalers' margins.

Distributors are looking for higher volume and margins. If they can achieve both by buying imported rum, they are likely to do so. Sales of Puerto Rican rum will be replaced by imported rum from Puerto Rico's Caribbean neighbors.

Under these conditions, rum distilleries in Puerto Rico will be forced to curtail operations; production is economical only when the product can be sold.

As compensation, President Reagan has proposed that the U.S. excise tax collected on imported rum be shared by Puerto Rico and the U.S. Virgin Islands. One witness, Dr. Antonio González, termed the proposal "infantile". In his view, this would be another federal handout. Instead of increasing its economic self-sufficiency, Puerto Rico would become more dependent on the federal government.

Moreover, the Puerto Rican rum industry has a long history in Puerto Rico. It was a major factor in the Commonwealth's economic development in the 1950's and 1960's. To destroy that industry, now, when the economy is in a turmoil, would be just one more blow to Puerto Rican self-pride. The rationale for such a sacrifice is not at all obvious. Puerto Ricans are unanimous in their request that the United States import duty on rum not be eliminated at this time.

Tuna

In 1980, Puerto Rico shipped over $365 million of canned fish to the mainland United States. Almost all of this was tuna. Canned tuna, by value, is the single largest Puerto Rican export to the United States. Shipments have been growing 10 to 15 percent per year.

The tuna industry employs over 7,000 workers in Puerto Rico. Operations are concentrated in the southern and southwestern parts of the island where unemployment is, otherwise, especially severe. The industry has been the dominant employer in Mayaguez and Ponce.

The current growth of the tuna industry is limited by the quotas on the number of porpoises that can be killed each year while catching yellow fin tuna. To avoid quotas and the higher U.S. minimum wages, cannery operators could relocate in countries in Central America, such as Costa Rica or Honduras, and still have duty-free access to U.S. markets under the Caribbean Basin Initiative.

V. MANUFACTURED PRODUCTS

Wage rates in Puerto Rico are at least three times higher than in most Carribbean Basin countries and generous benefit packages add to labor costs. These differences have already caused highly labor-intensive industries to move some of their production from Puerto Rico to neighboring islands and to Central America.

Granting trade concessions to Caribbean Basin countries on labor-intensive products can only accelerate the loss of jobs in Puerto Rico. Since the Puerto Rican economy, today, is unable to absorb workers at the current rate of displacement, *new trade concessions would represent a direct transfer of unemployment from the Caribbean Basin countries to Puerto Rico.*

In order to prevent this intolerable burden on the Puerto Rican economy, witnesses recommended that the granting of trade concessions on highly labor-intensive product lines be reconsidered. The products are apparel and selected electrical and electronic products. While many other products could be included in this category (e.g., footwear, textile mill products, and various rubber and plastic products), apparel and electronic products employ substantially more people in Puerto Rico. The apparel industry, alone, employs approximately 33,000 workers, over 20 percent of nonagricultural employment in Puerto Rico.

The importance of these jobs is not only in their numbers, but also in the type of worker employed. For example, nearly 85 percent of apparel workers are women. Their profile would have these characteristics: low skills, minimal education or training, partial or total support of family, no geographic mobility.

When these workers lose their jobs in the apparel and assembly-type industries, alternative employment it scarce and usually nonexistent. They become part of the hard-core unemployed and their families become public dependents.

U.S. imports from Caribbean countries

Caribbean export sales of labor-intensive products have grown rapidly within the present system of U.S. tariffs and quotas. The primary reason is that the very large labor cost advantages enjoyed by Caribbean countries is sufficient to offset U.S. duties. A second reason is that many products are already subject to trade concessions by the United States.

1. *Tariff item 807.00 for Japan.*—Under Items 806.30 and 807.00 of the Tariff Schedule of the United States, U.S. import duties are imposed only on the value added in foreign countries when the product is assembled abroad using components produced in the United States. This allows U.S. firms to make the more capital-intensive components in the United States and then do the highly labor-intensive assembly work in a low-wage country. For example, men's shirts may be completely cut in Puerto Rico, shipped to the Dominican Republic for final assembly, and then shipped to the United States mainland for sale. The duty is paid only on the low cost assembly operation in the Dominican Republic.

In 1980, textile products valued over $515 million were imported into the United States under Tariff Item 807.00. Duties were paid on approximately one-third of this amount.

The value of electrical and electronic products was far higher. Examples of 1980 U.S. imports under Items 806.30 and 807.00 are shown below. Each of the products is manufactured in Puerto Rico, also.

U.S. imports (1980) under tariff items 806.30 and 807.00

	Millions
Office machines and parts	$610.0
Resistors and capacitors	176.4
Conductors	151.6
Electronic memories	34.5
Equipment for making and breaking circuits	179.9

The import values are totals for all countries, including those in the Caribbean Basin. For the latter, almost 100 percent of their exports of these electrical and electronic products enter the United States under Tariff Items 806.30 and 807.00. The small proportion that does not enters duty-free under the Generalized System of Preferences. This program (GSP) grants duty-free access to U.S. markets for selected products from eligible developing countries.

The United States now proposes to eliminate all duties on imports of electrical and electronic goods from Caribbean Basin countries. The effect on these countries could very well be minimal. The major beneficiaries will be firms in Japan and Europe. They will be allowed to produce 75 percent of these products in their domestic factories, ship the components to the Caribbean for final assembly, and sell the finished product in the United States free of all U.S. import duties. *For electrical and electronic products, the Caribbean Free Trade Arrangement is tantamount to unilateral trade concessions to Japan and Europe.*

Disadvantaged will be competing firms in the United States and Puerto Rico. The existing Tariff Items 806.30 and 807.00 require that 65 percent of value be produced in the United States. Under the Caribbean proposal, no part of the value of the product need be American. The proposal in the Caribbean Basin Initiative to include the value added in Puerto Rico as part of the 25 percent value added in the Caribbean is not expected to be of any consequence to Puerto Rico, according to Dr. Elias R. Gutiérrez.

To prevent injury to competing firms in Puerto Rico, selected electrical and electronic products must be exempted from duty cuts. This was stated forcefully by the Puerto Rican Manufacturers' Association: "Any foreseeable damage should be prevented. Waiting for it to take place before searching for a remedy, which could be too late, is unacceptable."

The particular products to be exempted from one-way free trade will be determined by consultation between appropriate Puerto Rican and administration officials.

2. Apparel quotas.—President Reagan has exempted textiles and apparel from the proposed Free Trade Arrangement. United States imports of these products already are subject to import quotas.

Under the provisions of the International Multifiber Arrangement, the United States may impose import quotas on specific items of apparel on a country-by-country basis. Shipments for each country are monitored and, as they begin to "disrupt" the United States market, bilateral consultations are held and then a quota or quotas are set. At present, the United States has agreements with three Caribbean Basin countries: Costa Rica, Dominican Republic, and Haiti. The levels of their respective quotas reflect the levels of actual imports during the year before which consultations began, 1980 for Costa Rica and mid-1979 for the Dominican Republic and Haiti. Thus, imports already are at a "market disruption" level when quotas are imposed; and the quotas maintain imports at that level, not at a reduced level.

The most important category of apparel manufacture in Puerto Rico is "Body-Supporting Garments". This segment of the industry is especially mobile: machinery is light and relatively inexpensive, manufacturing processes are automatic; and the product is a low value, high volume item, so that workers can be trained fairly easily. Imposing quotas on imports from one country shifts growth in demand to a neighboring country.

In 1980, the United States imported body-supporting garments from 12 Caribbean countries. Until 1978, all of the imports from Caribbean Basin countries entered the United States under Tariff Item 807.00, i.e., the garments were assembled, only, in the Carribbean. In 1978, Jamaica began exporting garments with greater value added. Jamaica was joined by the Dominican Republic and Nicaragua in 1980. One explanation is that with the escalation in Puerto Rican wage rates starting in 1978, lower labor costs elsewhere could offset the U.S. import duty. More firms were willing to do more than just assemble garments in Caribbean countries.

The implications are clear: (a) The U.S. import duty on apparel is insufficient to prevent a shift of the apparel industry from the United States to lower wage countries. (b) Quotas only slow down the exodus. (c) The area with the greatest gain is the Caribbean Basin.

The federal government's proposal to provide more liberal quota arrangements for apparel imported from Caribbean Basin countries will act to accelerate the demise of Puerto Rico's apparel industry. The result will be a rapid loss of employment of low skilled workers in Puerto Rico and an intolerable burden imposed on the government of Puerto Rico to provide for these newly unemployed workers and their families. Therefore, quotas on imports from Caribbean countries should not be made more favorable than quotas on imports from other countries.

Shift to less labor-intensive industries

An essential element in Puerto Rico's program to move its economy from stagnation to growth is a restructuring of its manufacturing sector. Recognizing that its former advantage in low skill, low cost labor has gone, Puerto Rico is concentrating on attracting less labor-intensive industries. Among the products and industries Puerto Rico has been attracting over the past ten years are pharmaceuticals, professional and scientific instruments, non-electrical machinery, and the more capital-intensive and intricate electrical and electronic products.

Requirements of these industries go beyond low cost labor. They frequently are able to take advantage of the higher levels of education and training that are available in Puerto Rico and, moreover, often provide additional training in skills in short supply, including management skills.

These industries also require a more extensive infrastructure—communications network; reliable and adequate supply of electric power; low cost modern transportation, both in Puerto Rico and between Puerto Rico and the mainland United States; and adequate commercial and financial services. Provision of an infrastructure is vital and useful to renewed economic progress in Puerto Rico. It is expensive, however. Under the present-day fiscal austerity, few resources are available for these necessary components of economic development.

As part of the program to assure that Puerto Rico will benefit and prosper from the Caribbean Basin Initiative, several measures must be taken to help Puerto Rico attract new industry: (1) Tax incentives to invest in Puerto Rico should be expanded to include investment tax credits and accelerated depreciation, as proposed by President Reagan. (2) The Jones Act of 1920 should be modified to allow Puerto Rico to ship to and from the mainland using lower cost foreign flag ships. (3) Puerto Rico's authority to enter into multilateral and bilateral commercial agreements, such as the Venezuela and Mexico petroleum purchasing facility, should be recognized. (4) Centers for vocational training, for higher education, and for business and professional training should be established in Puerto Rico for use by all Caribbean countries.

Puerto Rico should share proportionately in federal programs. Especially important are federal procurement programs and facility location programs. In addition, as an alternative to requesting economic assistance for specific individual development programs, Puerto Rico would prefer the annual block grant for economic development that currently is being discussed. Dr. Elías R. Gutiérrez introduced an economic model demonstrating the substantial economic growth that could be achieved within five years by careful application of the funds in such a development program.

VI. TOURISM

Tourism is a highly labor-intensive activity with potential for continued growth in Puerto Rico. The realization of this potential is a function of economic conditions and weather in North and South America and Europe and depends also on Puerto Rico's efforts to remain competitive with other Caribbean tourist and convention sites.

Worldwide economic and weather conditions cannot be controlled or predicted by Puerto Rico. A variety of measures can be instituted to make tourism in Puerto Rico more comfortable and more competitive.

One set of competitive actions are designed to enhance the physical attractiveness of the island for visitors. An analysis of measures already in progress as well as those that could be undertaken is contained in the recent United States Department of Commerce Interagency Study. Covered are international transportation; hotel accommodations, service, and cost; and air, water, and urban pollution. With the continued help of the government of Puerto Rico, improvements can be effected in these areas.

A second set of measures to bolster the competitive status of tourism in Puerto Rico are those requiring action by the federal government since they involve trade and transportation to and from the island. Specific actions that have been recommended are these:

(1) Eliminate the 24-hour limitation on the time cruise ship passengers may remain in Puerto Rican ports;

(2) Permit cruise ship passengers on foreign flag ships to travel between Puerto Rico and other U.S. ports;

(3) Eliminate import duties on goods purchased by visitors to Puerto Rico; and

(4) Eliminate United States Department of Agriculture inspection of the baggage of passengers traveling from Puerto Rico to the mainland United States.

Each of these actions is designed to attract more visitors to the island *and* to encourage longer stays. A byproduct of these actions would be an increase in employment in retail and wholesale trade, as well as in directly affected tourist industries.

The CHAIRMAN. Perhaps at this point Governor Romero and you, Governor Luis, because of the very special relationships that we do have, could you at this time, briefly state at what level and degree of consultations were had between the U.S. Government and yourselves, and the legislatures?

Governor ROMERO-BARCELO. We have had extensive consultations from the Governor's office in Puerto Rico with the White House, with the State Department and with the Special Trade Representative.

We have been very active, and I have been personally active, in obtaining that communication and in achieving that close cooperation. It was not so at the beginning. Puerto Rico was not being given full participation, but I knocked on enough doors, long enough and hard enough and eventually, they were opened wide.

I feel that the communication that we now have, at all levels, is the best that we could have achieved. I feel that the interests of Puerto Rico are being taken into account. I myself, am very excited about the opportunities that this initiative offers, not only for the Basin, but also for Puerto Rico to assume a role of leadership on behalf of the nation and also to help us contribute to the rest of the Caribbean. I feel that there will be no problem at all.

The CHAIRMAN. After you originally expressed your concerns to me, I passed those concerns directly on to the White House and every agency that was involved assured me that there would be full cooperation.

Governor ROMERO-BARCELO. Let me say that with the legislature, I do not have that much communication either.

The CHAIRMAN. Governor Luis.

Governor LUIS. Mr. Chairman, I formed a special task force of public and private sector individuals and we met with U.S. Trade Representative William Brock and Ambassador William Ryan and other key members of the White House to discuss our proposals.

Also included in those meetings we had full participation by our delegate to Congress, so we have been in constant communication with the White House.

With respect to my local legislature, I have appointed members from the legislature to work on my task force, so I do not anticipate serious problems on the local level there. Thank you.

The CHAIRMAN. Thank you, very much.

Senator Dodd, I sat in your seat at the end of the line on the minority side for a long time. I know how you must feel. You are always the first member here and the last to be called on. I am sure that your seniority will grow on you through the years.

Senator Pell and I would now like to offer you the opportunity to seize control to take the gavel and chair the balance of this hearing. If you would not mind moving to the center of the table, you can dominate the scene for as long as you care to.

Senator DODD. You mean there are no caveats on what I can do with that gavel in my hand? [Laughter.]

The CHAIRMAN. We have absolute confidence in you, one of the most valuable members of this committee.

Senator DODD. I would be delighted to take over for you, Mr. Chairman.

The CHAIRMAN. I thank all of you, very much. Let me say that we deeply regret not being able to be here with you any longer. We will carefully read the transcript and will certainly concern ourselves. Your problems are our problems and we thank you very much for your appearance.

By the way, I would like to say that with you, I believe, is Judd Sommer, who is not only a colleague of mine, and a fine staff member, but also is devoted to Senator Javits. I deeply regret the necessity of saying that Senator Javits is having a tough struggle out at the Bethesda Naval Hospital. He deserves and wants every prayer that we can give him, he and his wife, Marion, and their children.

Senator DODD [presiding]. I believe that you have finished your statement, Governor?

Governor ROMERO-BARCELO. Yes, I have.

Senator DODD. Why do we not proceed to the other witnesses?

I am delighted to see two of my former colleagues from the House here today, Ron de Lugo representing the Virgin Islands and Baltasar Corrado, the Representative from Puerto Rico.

Without engaging in a suggestion as to who is more senior on either side, why do I not ask you, Baltasar if you would proceed with your statement. If you care to paraphrase it and submit it for the record, however you care to proceed, we would be delighted to accept your testimony.

STATEMENT OF HON. BALTASAR CORRADA, RESIDENT COMMISSIONER OF PUERTO RICO

Mr. CORRADA. Thank you, Senator, I will submit for the record my full statement and an attachment and ask that it be made a part of the record.

I appear today before this committee as the only official directly elected by the people of Puerto Rico to represent them in the Congress in the United States, to testify on the CBI.

It is my responsibility today, based on the overall package submitted to Congress as part of the bill under your consideration as well as other concessions made to us, not embodied in this bill, but covered by other actions and assurances given to us by the Reagan administration, to take a position on the CBI.

I would like to state at the outset that I have been and still am very critical of many of the policies of the Reagan administration as they affect or impact Puerto Rico. Particularly the deep and severe budget cutbacks in many Federal domestic programs such as CETA jobs program, food stamps, housing, education, health, EDA, Farmers Home, and many others.

I have been and am, highly critical of President Reagan's policies about the so-called New Federalism, which in my mind would represent a retrenchment on the part of the Federal Government from its responsibilities to promote the well being of the poor, the ill educated, the sick, the elderly, the children, the minorities, and the working middle class of America, including the people of Puerto Rico.

However, in all fairness, and with a sense of responsibility rising above partisan and parochial considerations, I must tell you today, that as Resident Commissioner of Puerto Rico to the United States, I strongly support President Reagan's Caribbean Basin Initiative, as a bold and creative act which aims directly at the major problem of that important neighboring area of the world, inadequate economic growth, which endangers regional stability and peace.

The nations of the Caribbean Basin run the spectrum of economic and social development. An illiteracy rate of between 10 and 17 percent, a per capita income of $260 a year, for over the 5 million citizens of Haiti to a literacy rate of 95 percent and a per capita income of $3,960 for the 1.17 million citizens of Trinidad and Tobago.

Per capita income is even higher, $4,650 for the Bahamians. It is a region where contrasts are stark. Wealthy landowning families living side by side with people barely able to keep themselves and their children fed. Conditions such as these, make these countries particularly vulnerable to revolution from either the right or the left.

A number of these countries are running huge deficits in the face of negligible or negative economic growth, increasing population, and worldwide economic recession. An illustration is Jamaica with a negative real economic growth rate in 1979 of 2.3 percent on the one hand, and Honduras with 6.7 percent of real economic growth in 1979 on the other. Even Costa Rica, a long time model of democracy and economic development of the region is not safe from economic turmoil.

In addition, the escalation of violence and fighting in the region particularly in Central America, bring increasing urgency to provide the economic framework within which these countries can recover and prosper.

I believe that the tools utilized in President Reagan's CBI proposal are precisely the ones required to promote the economic development and stability of the countries of the Caribbean Basin. And I am generally supportive of the bill.

The need to promote the development and stability of the countries of the Caribbean Basin should be recognized by the United States and by Puerto Rico as a U.S. domestic area in the Caribbean.

In my testimony, Mr. Chairman, I address some of the elements of this policy as they pertain to Puerto Rico and there are five very significant proposals that are very important to us, enumerated in the President's transmittal letter as well as in the bill itself, including additional tax incentives for Puerto Rico, the rebate of excise taxes on imported rum, consideration of inputs into the Caribbean Basin production from Puerto Rico and the Virgin Islands as domestic inputs from Caribbean Basin countries, additional safeguards available to industries under the Trade Act of 1974, and of course, the utilization of the Tropical Agricultural Research Facility at Mayaguez, to further the agricultural development of the Caribbean Basin.

In addition to those specific proposals, there are other concessions and proposals not included in this bill, because they do not form an essential part of the bill, but are matters addressed in other fields of Federal policy, such as agriculture and transportation, procurement, environmental regulations, crude refinery facilities, copper and oil exploration and participation of Puerto Rican officials in the implementation of the CBI, which were made to us and which I consider part and parcel of the overall analysis, even though, not in the context of this specific legislation and which are very important to us.

While Puerto Rico will benefit by the proposed legislation and other actions, we must overcome major and growing economic problems. Some of these are structural, sharp increases in electrical production, energy and transportation costs, unemployment of more than 22 percent, substantial underemployment and a labor force participation rate of about 41 percent, versus more than 60 percent for the mainland.

The latter reflects a large pool of people willing, but unable to find work and insufficient technical and language training. We have been successful and will continue to promote the growth of our internationally competitive high technology, high-wage industries such as electronics, scientific instruments, pharmaceuticals and others. But we are still substantially dependent on the more labor-intensive industries such as food, tobacco, textiles, apparel and leather products.

Clearly the elimination of the duties or in the case of textiles and apparel, transfer of sales quotas from Far Eastern to the Caribbean Basin, may adversely affect Puerto Rican production and sales to the U.S. market. I am struck by the fact that in recent conversations with the executive branch concerning the impact of the CBI trade and tax matters, we were informed that studies had not been made of the effects of duty-free imports on individual U.S. industries.

I believe that the administration should determine what new industries are likely to be established and the effect of greater imports on existing and new Caribbean Basin products on individual United States, including Puerto Rican industries.

In summary, the current U.S. recession, the worldwide trends involving shifts of labor-intensive production from developed to developing countries, combined with increasing developed country specialization in high technology industries, our structural problems and reduced Federal assistance, force us, not only to accelerate development to provide employment for our youth, other unemployed and discouraged applicants outside the work force, but to strengthen or rapidly convert threatened industries into nationally and internationally competitive industries.

This requires not only continuing but strengthening and expanding Federal tax incentives for Puerto Rico, combined with our own major self-help measures to strengthen technical education and language training, assist small business to expand and create jobs, expand our tax base, and increase our own revenues to replace lost Federal resources.

For these reasons, I believe that it is essential and I recommend that the administration and the Congress address other important measures, both in the context of the CBI as well as other Federal policies in Puerto Rico.

First, phasing in equal treatment of Puerto Rico in Federal programs in which we are excluded or where our share is below what we would receive if we were treated like a State. And in attachment A, I list those programs.[1]

Second, request the Special U.S. Trade Representative, Department of Commerce, and the International Trade Commission to present to this committee a commodity-by-commodity analysis of the effects of one-way free trade on agriculture and manufacturing industries in the United States, including Puerto Rico.

For those commodities identified by the study as endangered by duty eliminations the Congress either not eliminating or phasing duty elimination over a reasonable period.

Equally important, safe guard measures should be strengthened by making it easier for U.S. industries to prove injury or threat of injury from duty-free Caribbean Basin imports and easier to establish the need for relief in the event of market disruptions of regional markets, such as Puerto Rico.

Third, continuation and strengthening of an adjustment assistance program related to the CBI initiative and establishment of an early warning system to identify threatened industries and plants before they are damaged or to help them become more competitive produce new products, save and expand jobs.

Fourth, strengthening the Federal tax incentive program and supporting section 936 and related provisions in the Internal Revenue Code to help us help ourselves in overcoming our difficult structural unemployment problems and overcome the severe erosion of our competitive position stemming from OPEC-induced massive increase in energy, raw material and transportation costs, and from the recent sharp reductions in Federal corporate taxes.

Fifth, the extension to Puerto Rico as proposed in the CBI bill of the 1981 accelerated cost recovery system and investment tax credits, and the extension of the R. & D. benefits as a major new development tool.

Sixth, a strong Federal policy for the development of maritime transportation, including ports development, airport and ground transportation infrastructure in Puerto Rico which is necessary to be consistent with the administration's plans under the CBI to develop Puerto Rico into a major transportation hub for the Caribbean.

---

[1] See p. 120.

I respectfully submit that it is vital to address and resolve these issues to enable Puerto Rico to help itself to achieve economic development and social justice and to enable us to become a major participant and positive force in achieving the administration's objectives of rapid economic growth, stability and peace in the Caribbean Basin.

Senator Pell, before leaving include for the record, a resolution passed by the Legislative Assembly of Puerto Rico, which was sent to this committee.

I would like to state that that resolution of course, was passed exclusively with the votes of the majority party in the legislature and with the objection and opposition of the minority party in the legislature, which is, of course, very closely divided.

I support many of the proposals contained in that resolution. There are three specific proposals that I must strenuously object to, simply because I believe that they would be economically and politically disastrous to Puerto Rico.

One is that they ask that Puerto Rico should have the independent right to impose its own tariffs, and control the import of products from foreign countries.

Second, that we should have the right to enter into bilateral and multilateral international agreements on matters of trade and commerce with foreign countries.

And third, that Puerto Rico should be granted the power to limit the shipment of goods from the U.S. mainland to Puerto Rico.

While these may sound very nice from a demagogic point of view to some people in Puerto Rico, we must recognize, Mr. Chairman, that Puerto Rico is part of the U.S. domestic market, and that our products have free access to the U.S. market and obviously, if we should demand these separate rights which are more in line with the rights of independent sovereign nations, then we believe that this would create a tremendous amount of resentment and friction in the U.S. mainland in terms of the accessibility of Puerto Rican products to the U.S. mainland.

And may I say that we ship $5.5 billion in goods from Puerto Rico to the U.S. mainland and by far this is our largest market. And so, I support some of the other provisions in the resolution of the Legislature of Puerto Rico, but I oppose and object to these three specific provisions because I believe that they are more consonant with developing toward independence and would create resentment and of course, would cost potentially the lack of accessibility of our goods to the U.S. market which is fundamental.

I do not think that we can have it both ways. I do not think that we can have the cake and eat it too, Senator Dodd.

[Mr. Corrada's prepared statement follows:]

PREPARED STATEMENT OF RESIDENT COMMISSIONER BALTASAR CORRADA

I appear today before this Subcommittee as the only official directly elected by the people of Puerto Rico to represent them in the Congress of the United States to testify on the Caribbean Basin Economic Recovery Act.

As soon as I learned several months ago that the Reagan Administration was considering a new Caribbean Basin Initiative (CBI) and that such initiative might involve policies to promote investment, trade and aid to foreign countries in Central America and the Caribbean, I became interested and concerned about the potential positive and negative impacts that the CBI could have on the economic and social development of Puerto Rico—the largest United States domestic area in the Caribbean. I wrote letters to Assistant Secretary of State for Inter-American Affairs Tom Enders and to U.S. Special Trade Representative Ambassador Bill Brock, in October and November of last year warning them that the CBI policies had to be developed with great care to insure that not only Puerto Rico and the U.S. Virgin Islands would not be injured by such policies but that in fact these U.S. domestic areas in the Caribbean would benefit and prosper under any forthcoming proposal. The Governor of Puerto Rico, Hon. Carlos Romero Barceló and others in Puerto Rico as well expressed their concern to the Reagan Administration on the matter. A process of close consultation was developed between the executive branch of the federal government and the Governor of Puerto Rico and other Puerto Rican officials. In December we held hearings in the House Interior Committee to hear Reagan Administration representatives describe the policy options under consideration by a task force dealing with the development of policies for the CBI. At that time both Delegate Ron de Lugo of the U.S. Virgin Islands and I, on behalf of Puerto Rico, expressed the need to develop the CBI in a manner consistent with the best interest of our people.

Governor Romero presented the Reagan Administration with an extensive document on December 17, which I fully supported, outlining our general concerns as well as specific proposals requesting concessions, safeguards and other measures we deemed important to adequately protect, preserve and further develop the Puerto Rican economy within the context of the CBI as well as in terms of the general responsibility of the federal government to provide for the well-being of the U.S. territories and possessions and Puerto Ricans as citizens of the United States. As in any process of negotiation and discussion we were successful in obtaining from the Reagan Administration a commitment to support some of the concessions, safeguards and measures we wanted but not all of those outlined in our proposals, some of which are still the subject of discussion outside the context of the CBI. However, it is my responsibility today, based on the overall package submitted to Congress as part of the bill under your consideration as well as other concessions made to us not embodied in this bill but covered by other actions and assurances given to us by the Reagan Administration to take a position on the CBI.

I would like to state at the outset that I have been and still am very critical of many of the policies of the Reagan Administration as they affect or impact Puerto Rico, particularly the deep and severe budget cutbacks in many federal domestic programs such as the CETA jobs program, food stamps, housing, education, health, EDA, Farmers Home Administration and many others. I have been and am highly critical of President Reagan's policies about the so-called "New Federalism" which in my mind would represent a retrenchment on the part of the federal government from its responsibilities to promote the well-being of the poor, the ill-educated, the sick, the elderly, the children, the minorities and the working middle class of America, including the people of Puerto Rico. However, in all fairness and with a sense of responsibility rising above partisan and parochial considerations, I must tell you today that as Resident Commissioner of Puerto Rico to the United States, I strongly support President Reagan's Caribbean Basin Initiative as a bold and creative act of statesmanship which aims directly at the major problem of that important and neighboring area of the world-inadequate economic growth which endangers regional stability and peace.

The nations in the Caribbean region run the spectrum of economic and social development. From a literacy rate of between 10–12 percent and a per capita income of $260 a year for the over 5 million citizens of Haiti, to a literacy rate of 95 percent and a per capita income of $3,960 for the 1.17 million citizens of Trinidad-Tobago. Per capita income is even higher—$4,650—for the Bahamians.

It is a region where contracts are stark, wealthy, land-owning families living side by side with people barely able to keep themselves and their children fed. Conditions such as these make those countries particularly vulnerable to revolution from either the right or the left. A number of these countries are running huge deficits in the face of negligible or negative economic growth, increasing population, inflation and the worldwide economic recession. An illustration is Jamaica with a negative real economic growth rate in 1979 of 2.3 percent, on the one hand, and Honduras with a 6.7 percent real economic growth in 1979 on the other. Even Costa Rica, the long time model of democracy and economic development of the region, is not safe from economic turmoil.

In addition, the escalation of violence and fighting in the region, particularly in Central America, bring increasing urgency to provide the economic framework within which these countries can recover and prosper. I believe that the tools utilized in President Reagan's CBI proposal—investment, trade and aid—are precisely the ones required to promote the economic development and stability of the countries of the Caribbean Basin and I am generally supportive of the bill.

The need to promote the development and stability of the countries of the Caribbean Basin should be recognized by the United States and by Puerto Rico as a U.S. domestic area in the Caribbean.

I would like to address now some of the elements of this policy as they pertain to Puerto Rico.

In his letter to Congress dated March 17 transmitting to us the CBI bill, President Reagan states that "Puerto Rico and the U.S. Virgin Islands have a long-standing special relationship with the United States" and that "their development must be enhanced by our policy toward the rest of the region." In that context, the President reaffirmed his Administration's commitment to the following treatment for Puerto Rico.

First, the accelerated cost recovery system (ACRS) and the investment tax credit (ITC) will be extended to property used by companies operating in Puerto Rico and the U.S. Virgin Islands.

Second, excise taxes on all imported rum will be transferred to Puerto Rico and the Virgin Islands and other measures may be taken by the President if rum revenues to Puerto Rico and the Virgin Islands are reduced, including the withdrawal of duty free treatment of rum provided by this bill.

Third, inputs into Caribbean Basin production from Puerto Rico and the Virgin Islands will be considered domestic inputs from Caribbean Basin countries for purposes of the rules of origin. This will help Puerto Rico to develop the concept of "twin plants" and joint resource development with Caribbean Basin countries.

Fourth, industries in Puerto Rico and the Virgin Islands will have access to the same safeguard provisions as mainland industries under the Trade Act of 1974. This would allow industries, including agricultural and manufacturing industries, to petition the International Trade Commission for relief from serious injury or the threat thereof resulting from increasing foreign competition in the U.S. market. Such relief may include an increase in U.S. duties on foreign products or tariff-rate quotas or quantitative restrictions on imports or the negotiation of orderly marketing agreements or any combination thereof.

Fifth, the tropical agricultural research facility at Mayaguez, Puerto Rico will be used to further the agricultural development of the Caribbean Basin.

These specific concessions or safeguards are contained in the "Caribbean Basin Economic Recovery Act" bill sent by President Reagan to Congress. I am pleased by these features in the bill and urge you to make sure that any bill reported by the Subcommittee retains and strengthens these provisions.

There are other assurances and concessions made to us by the Reagan Administration arising from the discussion with them of the CBI which will be addressed in separate bills or by other actions in addition to those specifically covered by the bill under your consideration.

In a fact sheet given to us by Reagan Administration officials the following commitments were made to us:

I. AGRICULTURE

(a) *Crop Insurance.*—The Department of Agriculture will extend to Puerto Rico through the Federal Crop Insurance Corporation its reinsurance program no later than mid-1983 provided certain technical problems can be overcome.

(b) *Price Supports.*—The Department of Agriculture will extend to Puerto Rico price supports for rice and will consider the possibility of extending to Puerto Rico price supports for all commodities produced in Puerto Rico for which there is a U.S. price support program.

(c) *Puerto Rican Agricultural Development.*—The Federal Government, through the Department of Agriculture or other agencies, will provide technical assistance to Puerto Rico upon request for the purpose of improving the productivity of the island's agriculture.

Technical assistance will also be given to Puerto Rico upon request in an effort to integrate the island's agricultural development with that of the Caribbean Basin as a whole.

The Federal Government will also make greater use of the Tropical Agriculture Research Center, located in Puerto Rico, for the purpose of developing and implementing an integrated Caribbean Basin agricultural strategy.

II. TRANSPORTATION

(*a*) *Air negotiations.*—The U.S. Government should seek to expand air routes between and through San Juan and foreign countries for American and foreign flag carriers.

In future bilateral air negotiations account will be taken of the vital importance of increasing foreign carrier entry into Puerto Rico. Prior consultation between Puerto Rican officials and U.S. negotiators should be undertaken regularly.

U.S. flag carriers should be able to take advantage of San Juan's status as the transportation hub of the Caribbean. For Caribbean nations, the United States should seek a liberal entry regime for U.S. carriers between Puerto Rico and Caribbean nations.

These policies should be negotiated with a view to achieving Puerto Rico's objectives, including the establishment of a Canada-Puerto Rico air route and new or additional air routes between Puerto Rico and Mexico, Venezuela, Brazil and the United Kingdom.

(*b*) *Cruise ships.*—The Administration will submit to the U.S. Congress an amendment to existing legislation to permit cruise ship passengers on foreign flag carriers to travel:

(1) Between San Juan and other U.S. ports; and

(2) Between U.S. ports and San Juan without restrictions as long as there exist no U.S. flag carriers available to provide adequate service between U.S. ports and San Juan or vice versa.

I have already introduced legislation to this effect, H.R. 1489, and the Subcommittee on Merchant Marine will hold hearings shortly on this bill in San Juan.

The current restriction limiting the number of hours a cruise ship or cruise ship passengers can remain in the port of San Juan shall be extended from 24 hours to an unlimited stay in port.

(*c*) *Shipping to Puerto Rico.*—The Department of Transportation is studying carefully its regulations affecting cost of shipping for Puerto Rico, with a view to modifying those regulations where Puerto Rican economic development is being retarded. Consideration should be given to specific requests from Puerto Rico in the area of rate setting and financing vessels.

III. AID

Aid Procurement—Aid will make a strong effort to secure material inputs, technical assistance contracting and institutional support from Puerto Rico.

IV. ENVIRONMENTAL REGULATIONS

EPA will review, at Puerto Rico's request, the application of its regulations to the Islands. EPA will endeavor to be more flexible in future application of regulations having a substantial impact on these areas.

V. CRUDE REFINERY FACILITY

If justified by feasibility studies, the Departments of State and Energy will promote Puerto Rico as a center for refinery of heavy crude. The State Department and Department of Energy will bring to the attention of the region the possibility of using Puerto Rican facilities for heavy crude refining and the export of lighter crudes or products.

VI. COPPER AND OIL EXPECTATIONS

The Federal Government will continue to provide to Puerto Rico, where appropriate, technical assistance for the purpose of assisting the exploration and development of copper, oil or other natural resources.

VII. CBI IMPLEMENTATION

Puerto Rican officials are deeply interested in participating in the design and implementation of the CBI. The U.S. Government has in fact consulted very closely with these officials on all aspects of the CBI and intends to continue to do so. Puerto Rican officials will be invited to participate in many of the bilateral discussions involving CBI implementation.

While Puerto Rico will benefit by the proposed legislation and by other actions we must overcome major and growing economic problems. Some of these are structural: sharp increases in electrical, process energy and transportation costs, unemployment of more than 22 percent, substantial underemployment and a labor-force-participation rate of about 41 percent versus more than 60 percent for the mainland. The latter reflects a large pool of people willing but not able to find work and insufficient technical and language training.

These structural problems in combination with the deep U.S. recession, ever growing low-wage country competition for Puerto Rican products in the U.S. market and existing and projected real reductions in Federal aid make our development task massive.

We were very successful in Puerto Rico in increasing our gross domestic product and our per capita personal income respectively from $754.5 million and $296 in 1950 to $11,104.8 million and $3,494 in 1980, but growth declined sharply in fiscal year 1980, was essentially stagnant in fiscal year 1981 and like the U.S. economy, is declining now.

We have been successful and will continue to promote the growth of our internationally competitive high technology, high wage industries such as electronics, scientific instruments, pharmaceuticals, and others, but we are still substantially dependent on the more labor intensive industries such as food, tobacco, textiles, apparel, and leather products.

Clearly, elimination of duties (or in the case of textiles and apparel, transfer of sales quotas from Far Eastern countries to the Caribbean Basin) may adversely affect Puerto Rican production and sales to the U.S. market.

I am struck by the fact that in recent conversations with the Executive Branch concerning the impact of Caribbean Basin trade and tax measures we were informed that studies had not been made of the effects of duty free imports on individual U.S. industries. I believe that the Administration should determine what new industries are likely to be established and the effect of greater imports on existing and new Caribbean Basin products on individual United States, including Puerto Rican, industries.

In summary, the current U.S. recession, world wide trends involving shifts of labor intensive production from developed to developing countries combined with increasing developed country specialization in high technology industries, our structural problems and reduced federal assistance, force us not only to accelerate development to provide employment for our youth, other unemployed and discouraged applicants outside the workforce but to strengthen or rapidly convert threatened industries into nationally and internationally competitive industries.

This requires not only continuing but strengthening and expanding Federal tax incentives for Puerto Rico combined with our own major self help measures to strengthen technical education, and language training, assist small business to expand and create jobs, expand our tax base and increase our own revenues to replace lost Federal resources.

For these reasons I believe it essential and I recommend that the Administration and the Congress address other important measures both in the context of the CBI as well as other Federal policies in Puerto Rico:

1. Phasing in of equal treatment for Puerto Rico in Federal programs from which we are excluded or where our share is below what we would receive if treated like a state. See attachment A.

2. Request the U.S. Special Trade Representative, the Department of Commerce and the International Trade Commission to present to this Subcommittee a commodity by commodity analysis of the effects of one-way-free trade on agriculture and manufacturing industries in the United States including Puerto Rico.

For those commodities identified by the study as endangered by duty eliminations, the Congress should consider either not eliminating or phasing-in duty elimination over a reasonable period. Equally important, safeguard measures should be strengthened by making it easier for U.S. industries to prove injury or the threat of injury (from duty free Caribbean Basin imports) and easier to establish the need for relief in the event of market disruption for regional markets such as Puerto Rico.

3. Continuation and strengthening of an Adjustment Assistance Program related to the CBI Initiative and establishment of an early warning system, to

identify threatened industries and plants before they are damaged and to help them become more competitive, produce new products, save and expand jobs.

4. Strengthening the Federal tax incentive program and supporting Section 936 and related provisions in the Internal Revenue Code to help us help ourselves in overcoming our difficult structural unemployment problems and overcome the severe erosion of our competitive position stemming from the OPEC induced massive increase in energy, raw material and transportation costs and from the recent sharp reduction in federal corporate taxes.

5. The extension to Puerto Rico, as proposed in the CBI bill, of the 1981 accelerated cost recovery system and investment tax credits and the extension of R & D benefits as major new development tools.

6. A strong federal policy for the development of maritime transportation including ports development, airport and ground transportation infrastructure in Puerto Rico is necessary to be consistent with the Administration's plans under CBI to develop Puerto Rico into a major transportation hub for the Caribbean.

I respectfully submit that it is vital to address and resolve these issues to enable Puerto Rico help itself to achieve economic development and social justice and to enable us to become a major participant and positive force in achieving the Administration's objectives of rapid economic growth, stability and peace in the Caribbean Basin.

ATTACHMENT A.—CHARACTERISTICS OF UNEQUAL TREATMENT AND ESTIMATED ADDITIONAL FEDERAL ASSISTANCE IN 1979 HAD PUERTO RICO BEEN TREATED LIKE A STATE

Federal department: Program	How Puerto Rico's treatment differs from States	Estimated additional assistance under statehood [1] (millions)
Education:[2] Elementary and secondary education (title I).	Different allocation formula applied	$68
Health and Human Services:[2]		
Supplementary security income (SSI)	Excluded	304
Aid to families with dependent children and adult programs (AFDC).	Federal matching rate set at 75 percent and island funding subject to a ceiling for fiscal year 1979.	62
Social services (title XX of Social Security Act)	Instead of being included in the formula, $15,000,000 are set aside for Puerto Rico.	24
Medicaid (medical assistance program—title XIX of Social Security Act).	Matching rate set at 50 percent and island funding subject to a ceiling in fiscal year 1979.	82
Treasury: General revenue sharing	Not included	263
Plus: Earned income credit payments (see pp. 128 and 129).		31
Less: Projected reduction in food stamps due to projected increases in SSI and AFDC payments.		(113)
Total		721

[1] Calculations are described in appendix III. In each case, we consulted Federal officials responsible for administering the programs, and they concurred with the methods for computing estimates.

[2] Department of Health, Education, and Welfare in 1979.

Source: General Accounting Office Report to the Congress, Puerto Rico's Political Future: a Divisive Issue with Many Dimensions, Mar. 2, 1981.

Senator Dodd. Thank you, very much. I appreciate your commenting on the suggestions by the legislature; that will be helpful. We are not, obviously, as well aware of the internal debates any more than my colleagues would be of what goes on in the Legislature of Connecticut when they debate matters and send resolutions to the Congress for their consideration. So I appreciate very much your comments on that resolution and your concerns and criticisms of it.

I would like to express to the panel my apologies. This is in no way intended to diminish the status of you, Baltasar, but I neglected to turn to the Governor of the Virgin Islands. I thought that he had completed his testimony. And I apologize to you, Governor.

I would ask you to do the same. If you would care to paraphrase your remarks or statements we will submit your testimony in its entirety as a part of the record.

We would like to welcome you here as well before this committee, and we appreciate your comments on this initiative. Obviously, the decisions that we make will have a profound impact, not only on Puerto Rico, but on the Virgin Islands as well.

There has been a very long and close relationship between the Virgin Islands and the United States. Obviously, we in this committee, regardless of our political persuasion, want to do everything that we can to be of assistance to our sister states in the Caribbean.

If you would care now to give us your testimony, we would be glad to accept it.

STATEMENT OF HON. JUAN LUIS, GOVERNOR, U.S. VIRGIN ISLANDS

Governor Luis. Thank you, Mr. Chairman.

I am pleased to have the opportunity to appear before you today and to present the views of the U.S. Virgin Islands regarding President Reagan's Caribbean Basin Initiative.

The Virgin Islands is the United States only English-speaking democracy in the Caribbean. As such, the people of the Virgin Islands are proud Americans who in the past have volunteered for service in our country's effort to defend democracy and promote freedom around the world.

Also, the Virgin Islands have social, cultural, and economic ties of long standing with the non-American citizens of the neighboring Caribbean islands, thousands of whom have immigrated to our shores. Many today are naturalized Americans. Other evidence of our ties with nearby islands is the recent appointment of a native-born Virgin Islander and former Governor and delegate to the Congress as U.S. Ambassador to Trinidad.

It is also important to note that much of the private investment in the Virgin Islands originates from U.S. mainland citizens and corporations. Thus, the United States is in a unique position to capitalize on the U.S. Virgin Islands relationship to other non-American neighboring Caribbean nations by utilizing the territory in the innovative approach to foreign policy encompassed by the Caribbean Basin Initiative.

We have taken advantage of the opportunities given us by the administration to develop some of the policies and programs to be included in the CBI. This committee should take careful note that in our meetings with U.S. Trade Representative William Brock, Ambassador Robert Ryan of the State Department, and other administration officials, we have consistently emphasized that the CBI should contain measures that would maintain and improve the ability of the U.S. Virgin Islands to develop its own economy and thus continue to serve as an example to other countries in the region of the political and social stability and the economic advantages that a democratic system, such as that in the Virgin Islands, can provide.

The people of the Virgin Islands welcome and favor the Caribbean Basin Initiative as a recognition by the U.S. Government of the importance of our region, and we understand the necessity for changing foreign policy to provide and strengthen democracy in the Caribbean nations.

But we want to emphasize that in some cases the impact of U.S. foreign and domestic policy is shouldered disproportionately by the U.S. territories.

The Virgin Islands wishes to insure that the CBI will improve general economic conditions in the entire region. However, the program must also be structured to avoid damage to our already strained local economy, now bearing the severe impact of current federal budget and tax cuts, which are projected to cause a sizable budget deficit in the Virgin Islands this fiscal year.

By structuring the CBI in this manner, the United States will gain increased credibility in the region, and it will be in a better position to advance its goals of encouraging social and political stability in the Caribbean. In studying the details of the proposal included in the CBI legislation proposed by the President last week, we found that certain safeguards had been included to help the Virgin Islands maintain some of the special tax and trade concessions that have long been the basis of U.S. policy toward its territories.

But there are several vital areas where these safeguards need to be improved and strengthened, primarily with regard to the status of rum in the administration free-trade-area concept and with regard to Tax Code revisions to improve the investment climate in the Virgin Islands.

Furthermore, we are asking that the Virgin Islands be included in bilateral investment and tax treaties now being negotiated with various nations in the Caribbean and elsewhere. The details of these improved safeguards are outlined in my testimony earlier this week, before the Trade Subcommittee, of the House Ways and Means Committee.

I have attached to the text of my statement today a copy of my remarks before that committee and I ask that they be included in the record.

Because America's role in the Caribbean is of prime concern to this committee, we find it appropriate to request direct Federal assistance to improve and expand our local national guard, to promote the American ideal in the region.

We have already contributed to this effort through an exchange training program between the Virgin Islands National Guard and the Barbados Defense Force.

Another matter which is the concern of this committee and the Virgin Islands is extending convention tax treaties throughout the Caribbean, because such action would adversely affect our No. 1 industry, which is tourism; I am opposed to such an expansion.

There are also strong measures that are necessary to stimulate investment and increase trade in the Virgin Islands. We share many of the same economic development problems with the rest of the Caribbean region. Like other Caribbean neighbors, the Virgin Islands must share in the emergency economic assistance being offered in the Caribbean Basin Initiative legislation, particularly at a time when domestic economic development programs have been reduced and eliminated.

The Federal Government should provide funding for upgrading power generation and water production, distribution and storage facilities in the territory, which are vital to our economic development. Also, the Federal Government should provide the funding for the establishment of a territorial development bank.

Such funding could take the form of a grant, or preferably, it could be handled by returning to the Virgin Islands the excise taxes imposed by the United States on petroleum products manufactured in the Virgin Islands and shipped to the United States. The latter method has the additional advantage of providing a locally generating funding source to allow us to better meet our long-term needs and plan our economic future without having to ask Congress for ad hoc appropriations..

The proposed territorial development bank would provide long-term low-interest loans for improvement and expansion of territorial infrastructure and for private sector growth. Establishment of such an institution is vital in light of the elimination and cutbacks of such funding sources as the Economic Development Administration, the Small Business Administration, and the Farmers Home Administration.

It would put the Virgin Islands on a par with other nations in the region, which presently have access to low-interest funds through institutions such as the World Bank and other Inter-American Development Banks. Ironically, even though many of these institutions are funded in part, by the United States, they are not permitted to finance investments in the U.S. territories. Without a territorial development bank we are not competitive and our future economic growth would be seriously restricted.

Another measure which is vital to the territories economic future, but which will also prove useful to the U.S. military position in the Caribbean, is the improvements to the Virgin Islands airports. In view of other nation's assistance to neighboring Caribbean Islands efforts to expand their airport facilities, we strongly believe that the CBI presents an excellent opportunity for the United States to keep the Virgin Islands competitive by doing likewise in its own territory.

In 1976, the Federal Government agreed to fund an expansion of the St. Thomas airport, rated as a black star airport, which is only marginally safe for small jet operations. Phase I of the project which creates a landfill on which to construct a longer runway is now, nearly complete. We have been working with the administration and have obtained the necessary fiscal year 1982 funding to begin runway and terminal construction. We appreciate this commitment to the economic future of the territory.

However, further funding of an additional $34 million is needed in fiscal years 1983 and 1984 to complete the airport. The Virgin Islands seeks the aid of this committee and the entire Congress in earmarking the funds to complete Virgin Islands airport projects in the Airport and Airway Development program legislation.

The St. Croix airport is also in need of modernization and expansion. Lengthening of the runway there to 10,000 feet would permit nonstop flights to the west coast and to Europe. Completion of both projects would allow, wide bodied jet flights to both islands and would help tremendously in our efforts to promote tourism. It would also provide for the defense of U.S. interests in the Caribbean should a crisis ever develop.

In closing, I wish to emphasize that if properly implemented this laudable effort, which I support, the Caribbean Basin Initiative, would be significantly enhanced by the United States ensuring that its own territories are first adequately protected.

I pledge my assistance to this committee as it considers these and other measures which will improve the position of the Virgin Islands within the Caribbean Basin Initiative and which will improve the position of the United States within the Caribbean basin.

Thank you, very much.

[Governor Luis' prepared statement follows:]

PREPARED STATEMENT OF HON. JUAN LUIS

Mr. Chairman, distinguished members of the committee, thank you for this opportunity to appear before you today to present the views of the United States Virgin Islands regarding President Reagan's Caribbean Basin Initiative Plan (CBI).

The Virgin Islands is the United States only English-speaking democracy in the Caribbean. As such, the people of the Virgin Islands are proud Americans who, in the past, have volunteered for service in our country's efforts to defend democracy and promote freedom around the world.

Additionally, the Virgin Islands have economic social and cultural ties of long standing with the non-American citizens of the neighboring Caribbean Islands. Thus, the United States is in a position to capitalize on the U.S. Virgin Islands relationship to the other non-American neighboring Caribbean nations by utilizing the territory in the innovative approach of foreign policy encompassed by the Caribbean Basin Initiative.

We have taken advantage of the opportunities given us by the administration to develop some of the policies and programs to be included in the CBI. This committee should take careful note that in our meetings with U.S. Trade Representative William Brock, Ambassador Robert Ryan of the State Department and other administration officials, we have consistently emphasized that the CBI should contain measures which will maintain and improve the ability of the United States, Virgin Islands to develop its own economy and thus continue to serve as an example to their countries in the region of the political and social stability and the economic advantages that a democratic system, such as that in the Virgin Islands can provide:

The people of the Virgin Islands welcome and favor the Caribbean Basin Initiative as a recognition by the U.S. Government of the importance of our region, and we understand the necessity for changing foreign policy to provide and strengthen democracy in the Caribbean nations. But we want to emphasize that in some cases the impact of U.S. foreign and domestic policy is shouldered disproportionately by the U.S. territories.

The Virgin Islands wishes to ensure that the CBI will improve general economic conditions in the entire region. However, the program must also be structured to avoid damage to our already strained local economy, now bearing the severe impact of current Federal budget and tax cuts, which are projected to cause a sizable budget deficit in the Virgin Islands this fiscal year. By structuring the CBI in this manner the United States will gain increased credibility in the region and it will be in a better position to advance its goals of encouraging social and political stability in the Caribbean.

In studying the details of the proposal included in the CBI legislation proposed by the President last week, we found that certain safeguards had been included to help the Virgin Islands maintain some of the special tax and trade concessions which have long been the basis for United States policy towards its territories. But there are several vital areas where these safeguards need to be improved and strengthened, primarily with regard to the status of rum in the administration's free trade area concept and with regard to tax code revisions to improve the investment climate in the Virgin Islands. Furthermore, we are asking that the Virgin Islands be included in bilateral investment and tax treaties now being negotiated with various nations in the Caribbean and elsewhere.

The details of these improved safeguards were outlined in my testimony earlier this week before the Trade Subcommittee of the House Ways and Means Committee. I have attached to the text of my statement here today a copy of my remarks before that committee and I ask that they be included in the record.

Because America's role in the Caribbean is a prime concern of this committee, we find it appropriate to request direct Federal assistance to improve and expand our local National Guard to promote the American ideal in the region. We have already contributed to this effort through an exchange training program between the Virgin Islands National Guard and the Barbados Defense Force.

There are also other strong measures which are needed to stimulate investment and increased trade in the Virgin Islands. We share many of the same economic development problems with the rest of the Caribbean region. Like our Caribbean neighbors, the Virgin Islands must share in the emergency economic assistance being offered in the Caribbean Basin initiative legislation, particularly at a time when domestic economic development problems have been reduced and eliminated. The Federal Government should provide funding for upgrading of power generation and water production, distribution, and storage facilities in the territory and for the establishment of a territorial development bank. Such funding could take the form of a grant, or, preferably, it could be handled by returning to the Virgin Islands the excise taxes imposed by the United States on petroleum products manufactured in the Virgin Islands and shipped to the United States. The latter method has the source to allow us to better meet our long term needs and plan our economic future without having to ask Congress for ad hoc appropriations.

The proposed territorial development bank would provide a long term low-interest funding source for improvement and expansion of territorial infrastructure and for private sector growth. Establishment of such an institution is vital in light of the elimination and cutbacks of such domestic funding sources as the Economic Development Administration, the Small Business Administration, and the Farmers Home Administration. It would put the Virgin Islands on a par with other nations in the region which presently have access to low interest funds through institutions such as the world bank and the Inter-American Development Bank. Ironically, even though many of these institutions are funded in part by the United States, they are not permitted to finance investments in U.S. territories. Without a Territorial Development Bank we are not competitive and our future economic growth will be seriously restricted.

Another measure which is vital to the territory's economic future, but which will also prove useful to the United States' military position in the Caribbean is improvements to the Virgin Islands airports. In view of other nations' assistance to neighboring Caribbean Islands' efforts to expand their airport facilities, we strongly believe that the CBI presents an excellent opportunity for the United States to keep the Virgin Islands competitive by doing likewise in its own territory. In 1976, the Federal Government agreed to fund an expansion of the St. Thomas Airport, rated as a black star airport, which is only marginally safe for small jet operations. Phase I of the project, which creates the landfill on which to construct a longer runway, is now nearly complete. We have been working with the administration and have obtained the necessary fiscal year 1982 funding to begin runway and terminal construction. We appreciate this commitment to the economic future of the territory. However, further funding of an additional $34 million is needed in fiscal years 1983 and 1984 to complete the airport. The Virgin Islands seeks the aid of this committee and the entire Congress in earmarking the funds to complete Virgin Islands airport projects in the airport and airway development program legislation.

The St. Croix Airport is also in need of modernization and expansion. Lengthening of the runway three to 10,000 feet would permit non-stop flights to the west coast and to Europe. Completion of both projects would not only help tremendously in our efforts to promote tourism, it would also provide for the defense of U.S. interests in the Caribbean should a crisis ever develop.

I wish to emphasize that, if properly implemented, this laudable effort, the Caribbean Basin Initiative, will be significantly enhanced by the United States ensuring that its own territories are first adequately protected.

I pledge my assistance to this committee as it considers these and other measures which will improve the position of the Virgin Islands within the Caribbean Basin Initiative and which will improve the position of the United States within the Caribbean Basin.

Thank you very much.

[Attachment]

STATEMENT OF HON. JUAN LUIS, GOVERNOR, U.S. VIRGIN ISLANDS, BEFORE THE SUBCOMMITTEE ON TRADE OF THE COMMITTEE ON WAYS AND MEANS, U.S. HOUSE OF REPRESENTATIVES, MARCH 23, 1982

Mr. Chairman, distinguished members of this subcommittee, I very much appreciate this opportunity to appear before your committee to present the views of the United States Virgin Islands regarding the President's Caribbean Basin Initiative plan (CBI).

I was honored to be invited to be present at the meeting of the Organization of American States last month when President Reagan presented the Caribbean Basin Initiative. I was particularly pleased that the President proposes "special measures" for the U.S. Virgin Islands and Puerto Rico as one of the six points in his Caribbean program. The same week of the President's speech, the National Governor's Association passed a resolution calling on the federal government to recognize that whatever action it takes to aid the nations of the Caribbean may have an impact on U.S. Territories in the region and that no action should be undertaken without carefully weighing the consequences to the U.S. Virgin Islands and Puerto Rico.

We have been given several opportunities by the Administration to present our views as to what policies and programs should be included in the CBI to benefit the United States Virgin Islands. We appreciate these opportunities. I believe they affirm the spirit of cooperation, communication, and compromise which consistently have characterized our dealings with the Administration on the development of the Caribbean Basin Initiative.

In order to ensure that the U.S. Virgin Islands input would represent the views of the entire Territory, I appointed a local task force, composed of members of both the public and private sectors, to develop background and position papers for presentation to the Office of the U.S. Trade Representative. The input of this group is also reflected in my remarks of today and I hope you will have an opportunity later in these hearings to hear directly from some of the members of the task force who have accompanied me to Washington.

In our meetings with U.S. Trade Representative William Brock, Ambassador Robert Ryan of the State Department, and other administration officials, we have consistently emphasized that the CBI should contain measures which will maintain and improve the ability of the United States Virgin Islands to develop its economy and thus continue to serve as an example to other countries in the region of the political and social stability and the economic advantages that a democratic system such as that in the Virgin Islands, can provide. We pointed out that while the Virgin Islands wishes to ensure that the CBI will improve general economic conditions in the entire region the program should also be structured to avoid damage to our already strained local economy, now bearing the severe impact of current Federal budget and tax cuts, which are projected to cause a harmful budget deficit in the Virgin Islands.

As this committee is well aware, United States policy toward its territories has long been based on providing special tax and trade concessions in order that they could develop needed public infrastructure and capital improvements to move toward obtaining self-sustaining economies. In talking with the Administration about its plans for the CBI we emphasized that the value of the special treatment currently available to U.S. citizens and businesses in the Virgin Islands should not be reduced or eliminated by the granting of similar concessions to foreign nations without compensatory programs designed to generate increased economic activity in the United States Virgin Islands. This is particularly important when one considers that our neighboring Caribbean islands are more competitive because they do not have to comply with federally imposed regulatory requirements relating to environmental protection, fair labor standards, and occupational safety and health, among others, which significantly increase the cost of doing business and investing in the U.S. Virgin Islands. Furthermore, the Virgin Islands unlike its Caribbean neighbors, is not eligible to obtain financial assistance from various international organizations such as the World Bank, the Overseas Private Investment Corporation, and the Caribbean Development Bank.

The people of the Virgin Islands welcome and favor the Caribbean Basin Initiative as a recognition by the U.S. Government of the importance of our region, and we understand the necessity for changing foreign policy to promote and strengthen democracy in the Caribbean nations. But we want to emphasize that in some cases the impact of U.S. foreign and domestic policy is shouldered disproportionately by the U.S. territories. In such cases, appropriate compensatory Federal action is needed to offset these negative impacts.

Now that the CBI is before Congress for its careful consideration, we stand ready to work with this Committee and the entire Congress, to devise new strategies, new opportunities, and new means to permit the Territory to continue to grow and prosper in an "economically revitalized" Caribbean.

In this context I would like now to briefly discuss a few aspects of the proposed CBI legislation. I want to be sure this Committee is aware exactly what is and what is not contained in it, and to suggest various ways in which it could be improved.

The "centerpiece" of the President's CBI program is a free trade arrangement by which Caribbean Basin products may be imported into the United States free of all customs duties. When I first discussed this aspect of the CBI with the administration I expressed the Territory's strong opposition to this plan as it applies to various products, and most particularly, rum. As the Committee is aware, the United States returns to the Virgin Islands treasury all of the federal excise taxes imposed on U.S. Virgin Islands produced rum that is sold in the United States. In fiscal year 1981 this accounted for $37.1 million or approximatey 15 percent of the Territory's budget. The Virgin Islands rum industry also provides 3 percent of total local manufacturing employment. I feared then, as I do today, that permitting duty free access to competing Caribbean rums will destroy our rum industry and the jobs and revenues it provides.

Our rum industry is much more vulnerable to competition from other Caribbean rums than is the Puerto Rican rum industry. About 80 percent of U.S. Virgin Islands rum is sold in bulk and bottled under private labels or used in foods or pre-mixed drinks. Thus, unlike the market for the well-known brands manufactured in Puerto Rico, once the duty is eliminated the market for U.S. Virgin Islands rum could easily be usurped by distilleries from other countries which can use low cost labor and which are not subject to U.S. environmental and regulatory laws.

Three "safeguards" relating to rum have been included in the legislation. While they provide some protection for Virgin Islands government revenues, they provide virtually no protection for the existing production of our rum industry and they do not accommodate the possibility that this industry could otherwise grow and prosper. The safeguards are as follows: First, excise taxes on foreign rums would be returned to the Virgin Islands and Puerto Rico and divided between the Territory and the Commonwealth according to a formula which has yet to be determined; second, U.S. Virgin Islands industries would be allowed to petition the International Trade Commission under the Trade Act of 1974 for import relief for injuries caused by increased imports from Caribbean Basin countries; and third, by a so-called "snap-back" provision, the President may withdraw duty free treatment on rum if he determines that excise tax revenues returned to the Virgin Islands and Puerto Rico are reduced below the amount that would have been returned if the imported rums had been manufactured in the U.S. Virgin Islands and Puerto Rico.

Because of the prime importance placed by the President on providing duty free treatment for rums of Caribbean Basin countries, the Virgin Islands would be inclined to lend its support to this part of the CBI program, but the Territory will not be in a position to do so unless additional safeguard provisions are provided and unless the existing ones are significantly strengthened and clarified. First, the formula for dividing foreign rum excise revenues between the U.S. Virgin Islands and Puerto Rico must be spelled out in the legislation and not left for the determination of the Secretary of the Treasury. We believe that the formula should take account of the fact that the Virgin Islands stands to lose more than Puerto Rico because our rum is sold mostly in bulk. The formula should be based on relative production during some historical period, perhaps calendar year 1981. We stand ready to work with the Committee, the administration, and Puerto Rico in determining this formula. Second, the "snap-back" provision must be strengthened to make the withdrawal of duty-free treatment mandatory and not permissive if excise tax revenues are reduced. Third, our rum industry must be exempted from the EPA requirement to construct an effluent treatment facility at the cost of $5–7 million. This would relieve the distiller from making a burdensome capital investment given the uncertain future of the Virgin Islands rum industry in the context of a Caribbean free trade area. Fourth, a quota system should be imposed on foreign rums which would phase in duty-free treatment every several years but only if it could be shown that Virgin Islands rum production has not suffered a significant decrease attributable to duty-free treatment of foreign rums. Fifth, ambiguous provisions contained in the proposed legislation limiting the amount of foreign excise taxes to be returned to the Territory based on the per-unit taxes on Virgin Islands rum as compared to foreign rum must be removed. Finally, alternative revenues measured must be included in the CBI package so that the Territory can become less reliant on what could become, under the free trade area proposal, a much less reliable source of revenue for the Territory. Shortly, I will discuss some proposals in this regard.

Our concerns about those portions of the CBI legislation relating to the free trade area extend beyond the important rum issue. First, under the President's proposal, in determining the value added in Caribbean countries under the rules of origin test, U.S. Virgin Islands products and materials may be included. This will be a minor benefit to the Territory because the U.S. Virgin Islands has virtually no raw materials to offer and it does not produce a significant quantity of intermediate products to be used in manufacturing processes. In order to stimulate trade between the Territory and other Caribbean nations, we believe that the legislation also should contain language which would permit Caribbean Basin products to be excluded in determining the foreign content of U.S. Virgin Islands products under Headnote 3(a).

That same provision, as it is presently drafted, is harmful to the Virgin Islands because it reduces, from the 35 percent GATT level to 25 percent, the value to be added in Caribbean countries. The 25 percent value-added test will reduce the Virgin Islands competitive advantage in the Caribbean. A liberalization of the Headnote 3(a) requirements on watches, as has been proposed by Delegate de-Lugo in H.R. 5758, a bill which was developed through the Department of Commerce, would serve to help reduce the negative impact of the value-added provision by maintaining a needed competitive edge for the Virgin Islands watch industry. A provision to permit an increase in the foreign content limitation on non-watch products from 50 percent to 70 percent has been included in the administration's CBI legislation at the Virgin Islands request. We urge this Committee's support of H.R. 5758 and of the proposed change in Headnote 3(a) in the administration bill.

A second provision requires that duty-free treatment for Caribbean Basin products will only be available if they are "imported directly from a beneficiary country" into the U.S. customs territory. A simple amendment to this provision to permit duty-free entry into the United States if the product is imported via the Virgin Islands, would prove of great benefit to our tourist oriented local retail industry and it would also encourage increased trade between the U.S. Virgin Islands and its Caribbean neighbors.

Third, the provision extending the protection from increased imports available under Section 201 of the Trade Act of 1974 should be expanded to provide additional protections under that Act for U.S. Virgin Islands industries. Extension of the anti-dumping and countervailing duty provisions of the Trade Act to the Virgin Islands would help protect Virgin Islands industries, such as the watch industry, that might be hurt by foreign manufacturers who take unfair advantage of the free-trade area concept.

Also the legislation would allow tourists to return to the United States from the U.S. Virgin Islands with an additional liter of locally produced alcoholic beverages duty free. We urge this Committee's support of this provision which will prove of some benefit to both our tourist and rum industries.

In addition to the trade measures with which this committee is primarily concerned, the CBI legislation includes certain tax measures, revenue measures, and other measures to promote the economic development of the Caribbean region. I would now like to discuss them briefly.

In the area of taxes, the CBI legislation contains a provision to permit U.S. domestic corporations to receive the benefits of the Investment Tax Credit and the Accelerated Cost Recovery System for investments made in the U.S. Virgin Islands and Puerto Rico. At the same time, the legislation would provide for the Investment Tax Credit to be available to other countries in the Caribbean region. This comparative advantage for U.S. Territories is exactly the type of concept that the Virgin Islands needs and supports, and we urge that it be extended to other portions of the legislation as well. At the same time, however, there is a distinct need for other tax incentives to be extended to investors in the United States Virgin Islands. While investment tax credits and accelerated depreciation are useful in attracting capital intensive industries, our studies have shown that lighter, more labor intensive industries are the types most likely to invest in the U.S. Virgin Islands. To facilitate such investment we urge Congressional support for H.R. 5113, introduced by Delegate de Lugo at my request, which would lower to 10 percent from 30 percent the tax rate on dividends, interest, and other passive income flowing from the Virgin Islands to the United States and which would remove foreign tax credit restrictions as they relate to this tax. Such a measure will put the Virgin Islands on a par with the many countries that have negotiated tax treaties with the United States. We also urge that the CBI legislation be amended to permit the Virgin Islands to participate in U.S. bilateral investment treaties.

Other strong measures are needed to stimulate investment and increased trade in the Virgin Islands. We share many of the same economic development problems with the rest of the Caribbean region. Like our Caribbean neighbors, the Virgin Islands must share in the Emergency Economic Assistance being offered in the Caribbean Basin Initiative legislation, particularly at a time when domestic economic development programs have been reduced and eliminated. The federal government should provide funding for upgrading of power generation and water production, distribution, and storage facilities in the Territory and for the establishment of a Territorial Development Bank. Such funding could take the form of a grant, or, preferably, it could be handled by returning to the Virgin Islands the excise taxes imposed by the United States on petroleum products manufactured in the Virgin Islands and shipped to the United States. The latter method has the additional advantage of providing a long term funding source for Territorial needs without the need for annual appropriations.

The proposed Territorial Development Bank would provide a low-interest funding source for improvement and expansion of territorial infrastucture and for private sector growth. Establishment of such an institution is vital in light of the elimination and cutbacks of such domestic funding sources as the Economic Development Administration, the Small Business Administration, and the Farmers Home Administration. It would put the Virgin Islands on a par with other nations in the region which presently have access to low interest funds through institutions such as the World Bank and the Inter-American Development Bank. Ironically, even though many of these institutions are funded in part by the United States, they are not permitted to finance investments in U.S. Territories. Without a Territorial Development Bank we are not competitive and our future economic growth will be seriously restricted.

While the U.S. Virgin Islands has attempted to diversify its economy through promoting manufacturing industries, tourism remains the mainstay of the Territory. In view of other nations' assistance to neighboring Caribbean Islands' efforts to expand their airport facilities, we strongly believe that the CBI presents an excellent opportuntiy for the United States to keep the Virgin Islands competitive by doing likewise in its own Territory. In 1976. the federal government agreed to fund an expansion of the St. Thomas airport, rated as a black star airport, by extending its 4800 foot runway into the sea and by leveling two hills which have made the airport only marginally safe for jet operations. Phase I of the project, which creates the landfill on which to construct the new runway, is now nearly complete. We have been working with the administration in obtaining the necessary fiscal year 1982 funding to begin Phases II and III, runway and terminal construction. We very much appreciate this commitment to the economic future of the Territory. However, further funding of an additional $34 million is needed in fiscal years 1983 and 1984. The Virgin Islands seeks the aid of Congress in earmarking the funds to complete this project in the Airport and Airway Development Program legislation.

The St. Croix airport is also in need of modernization and expansion. Lengthening of the runway there to 10,000 feet would permit non-stop flights to the West Coast, and to Europe. Completion of both projects would allow wide-body flights to both islands and would help tremendously in our efforts to promote tourism.

We have received assurances from the administration that the proposed Eastern Caribbean Center for Educational, Cultural, Technical, and Scientific interchange at the College of the Virgin Islands will be funded, although no appropriation is included in the CBI legislation. As the only United States, English-speaking institution of higher learning in the Caribbean, the College of the Virgin Islands is in an excellent position to provide the training, research and expertise needed to further the economic, cultural, and social development of the English speaking nations of the region. We believe that the Eastern Caribbean Center should be funded by Congress and that it is consistent with the CBI goals.

Another project, included in the CBI legislation, which would benefit both the Territory and the Caribbean as a whole is increased agricultural research. This proposal should be expanded to include the fishing industry so that both fishing and agriculture may become more viable in the Virgin Islands.

In closing, I wish to reiterate the Virgin Islands' strong support for federal measures to help promote economic development of our strategically vital region. But I wish to emphasize that if properly implemented, this noble effort, the Caribbean Basin Initiative, will be significantly enhanced by the United States ensuring that its own territories are first adequately protected. In so doing the United States will be in a better position to encourage social and political stability by promoting its trade and investment policies in the region. I ask this committee and the entire Congress to amend and strengthen the administration's CBI legislation where necessary, particularly by providing compensatory funding and economic measures for the territories.

I stand ready to work with this Committee as it considers the measures that are needed to improve the position of the United States Virgin Islands as it relates to the Caribbean Basin Initiative.

Thank you very much.

[Statement of Senator Bent Lawaetz, U.S. Virgin Islands Legislature follows:]

STATEMENT OF SENATOR BENT LAWAETZ, U.S. VIRGIN ISLANDS

I thank you for this opportunity to testify on the proposed Caribbean Basin Economic Recovery Act.

Mr. Chairman, members of the Committee, my name is Bent Lawaetz. I am a member of the Virgin Islands Legislature where I am Vice Chairman of its Committee on Commerce; I am also a member of the Governor's task force on the Carribean Basin Initiative, and I have participated in negotiations on the Caribbean Basin Initiative from the very beginning.

The Virgin Islands would be a major beneficiary of the CBI to the extent that the program might bring increased economic and political stability to the region. For that reason I would very much like to support the Initiative, but as an elected representative of the people of the Virgin Islands I cannot support legislation which so clearly would harm the people I represent.

Many of the sections in the proposed legislation, which are harmful to the Virgin Islands, could have been made acceptable, had adequate compensatory measures been included in the proposed legislation; but those compensatory measures which had been requested are sadly missing from the proposal. We have been told that most of those issues will be dealt with outside the CBI, but I cannot support the CBI on the hope that those other measures will be dealt with favorably after the CBI is in place. Those other measures needed for the welfare of the Virgin Islands would either have to be locked in to the CBI, or passed concurrently in order for me to support the proposed Caribbean Basin Initiative legislation.

The main protection measures which I am seeking for the Virgin Islands are the following:

(1) More protection for our rum industry by;

(A) Waivering the EPA requirement to build a $5 million treatment plant for the effluent from the distillery.

(B) Installing a quota system to preclude major disruptions in the market.

(C) Including Virgin Islands rum in Protocol No. 7 of the Lome convention of 1975 in order to make our rum industry competitive in the European market.

(2) Passage of H.R. 5758: A bill to amend the Tariff Schedules of the United States with respect to the dutiable status of watches and watch movements from insular possessions of the United States. Between 600 and 800 jobs in the Virgin Islands depend on the passage of that bill.

(3) Passage of H.R. 2232: A bill to revise the Headnote 3(a) program.

Even without the passage of the CBI legislation we are not able to attract investments to the Virgin Islands because of the existence of this 30 percent withholding tax. It is essential that both sections of the Bill is passed.

(4) It is essential that Headnote 3(a) of the Tariff Schedules of the U.S. be amended to change the existing Foreign Component Limitation of 50 percent to 70 percent. Without this change we will not be competitive with our neighboring islands because of the liberal trade policies being extended to them.

(5) The excise taxes collected on gasoline should be returned to us just as the excise taxes collected on rum is presently returned to us. We urgently need this source of funding to develop our airports, harbors, water and power production and distribution systems, and other aspects of our infrastructure. This source of funding would also be used to fund a Development Bank which would enable us to offer the types of financial services presently available in the neighboring islands and countries through the World Bank and other international financial institutions. Although we appreciate very much the grants which the U.S. Government has given us for some of the above items, the funding procedure leaves us in the position of having to beg for everything that we get. Gentlemen, it is no fun to be a beggar. It leads inevitably to feelings of bitterness and resentment. The taxes which I am referring are taxes on products which we produce and which I believe the Congress intended to be returned to us when they passed the Revised Organic Act of 1954.

(6) The Virgin Islands are generally excluded from tax treaties negotiated between the United States and foreign countries. This makes it almost impossible for us to attract foreign investments which would help to strengthen and diversify our economy.

These are just some of the major issues that we have negotiated for unsuccessfully. At this time I would ask to have included in the Record, the editorial of Monday, March 22, 1982, of one of our local newspapers, the "St. Croix Avis."

I was born in the Virgin Islands. I have lived there most of my life. Now, for the first time in my life I am hearing Virgin Islanders question the wisdom of being a U.S. Territory. Historically, we have been a stabilizing influence in the Caribbean, a shining light of democracy and Americanism. I appeal to you; do not extinguish our light.

[From the St. Croix Avis, Mar. 22, 1982]

WAR AND PEACE

We must be doing something wrong. Possibly, we are doing something right instead of doing something wrong. And that could be the reason the U.S. Virgin Islands is being, more or less, overlooked in the President's Caribbean Basin Initiative program.

We are not at war and the only time, since the Virgin Islands became part of the United States of America that the men and women of the Virgin Islands engaged in any wars, was to help the United States. And that help was given, willingly and for the most part, voluntarily, during every conflict the United States has been engaged since World War I.

Yet, maybe that is what we're doing wrong. We are not at war with our neighbors or within our own boundaries. It seems the bulk of the billions of dollars to be expended under the Caribbean Basin Initiative will be poured into those nations or countries involved in bloody wars, international or insular communistic or civil.

Millions and millions of dollars to arm and aid the troops in El Salvador to battle Salvadorean rebels. And millions more will go to Nicaragua which reportedly is pouring arms and aid to support those same rebels.

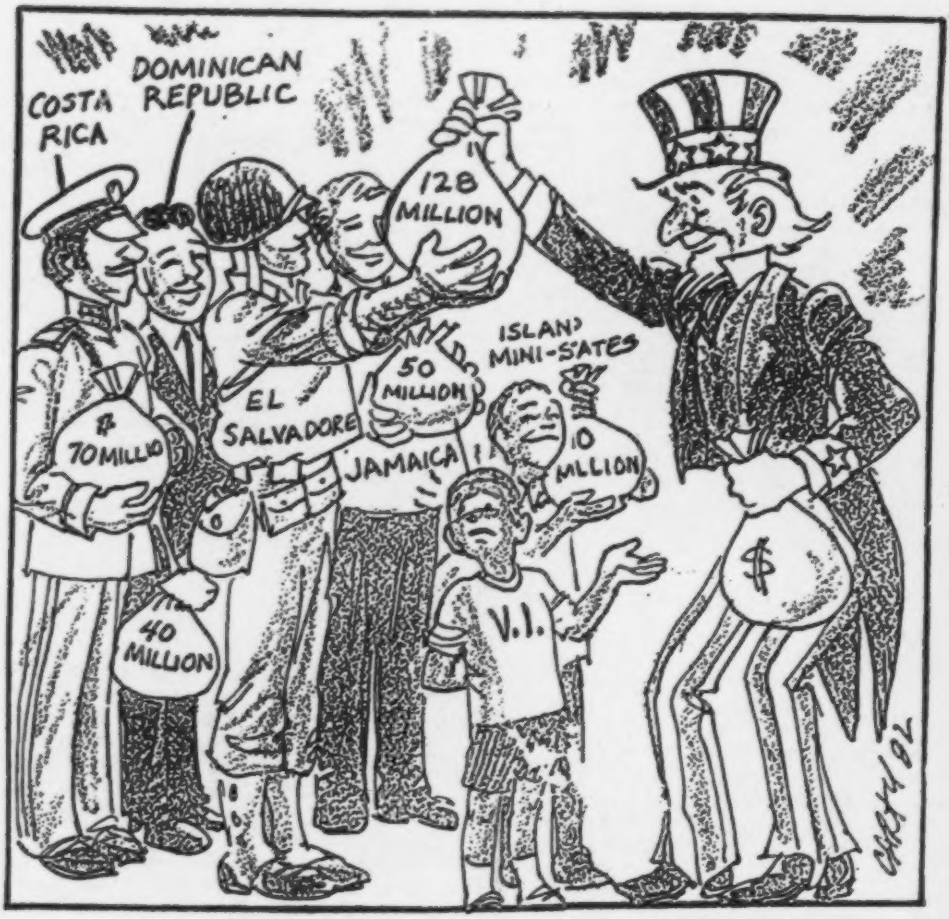
We have our difficulties between islands. We battle on the floor of the Legislature, and we toss complaints and challenges back and forth across the 40 miles of water separating us. But, each day, we take pride in the fact that we are all Virgin Islanders and in the belief we can settle our problems without guns, tanks, riots and revolution.

Yet, we also need help. We are small, we are dependent upon assistance from the United States not to exult but to exist. We ask for help and many times our leaders and representatives have to beg for aid. Not arms.

So, we must be doing something wrong. Under the Caribbean Basin Initiative our students will have to forego school lunches so the Salvadoreans can better feed their troops. Our needy will go hungry so Nicaragua can better spread its hatred. Our pledge of allegiance is forgotten while Washington hears promises of forced friendship.

Oh, yes. We must be doing something wrong. Or, again, maybe it's because we'er doing something right that we are being placed in the wrong light. Apparently, the brightest light, the most attention, shines on War. Peace is pushed off stage.

IT MAKES YOU FEEL LIKE AN ORPHAN


COSTA RICA
DOMINICAN REPUBLIC
128 MILLION
ISLAND MINI-STATES
50 MILLION
EL SALVADORE
JAMAICA
$ 70 MILLIO
10 MILLION
$
V.I.
40 MILLION

Senator Dodd. Thank you, Governor for your testimony. I will quickly now turn to my friend and former colleague in the House, Ron de Lugo.

I welcome you to the committee, Ron, and I am glad to accept any statements that you have. They will be included in the record. Proceed as you wish.

STATEMENT OF HON. RON DE LUGO, DELEGATE FROM THE VIRGIN ISLANDS

Mr. de Lugo. Thank you, very much, Chairman Dodd, that has a good ring to it.

Senator Dodd. It does have a very good ring.

Mr. DE LUGO. Keep the gavel.

Senator DODD. I think that I will take it back with me. [General laughter.]

Mr. DE LUGO. I understand that Governor Romero has a plane to catch. First I would like to associate myself with the three previous speakers. I would hand in for the record the brief prepared remarks that I had for this committee and also an attachment which is a more lengthy and more detailed presentation that I made on March 23, before the House Ways and Means Committee.

Senator DODD. Without objection those will be included.

Mr. DE LUGO. Perhaps we can get right into any questions. However, I would like to say that I support the Caribbean Basin Initiative with certain safeguards.

I am concerned that safeguards be contained in here for the United States flag territories in the Caribbean. We have had extensive meetings with the administration and I must say that they have been quite helpful. I think that we are close to agreement on a number of things that I believe would safeguard the interests both of the Virgin Islands and Puerto Rico.

One of the most important things that we have to safeguard is the rum industry in the U.S. territories. In my testimony on the House side, I said that ideally it would have been excellent if the rum industry could have been exempted similar to textiles, but I do not think that is politically realistic.

So, I have proposed in my attached testimony a quota that would protect the rum industry in Puerto Rico and the Virgin Islands, and would, at the same time, allow the implementation of the President's program to the other islands of the Caribbean, immediately.

However, I must say that I am very impressed with the proposal of the Governor of Puerto Rico, Governor Romero, to go right to the problem which would be to keep the tariff on the bulk rum and this would solve the problem for both Puerto Rico and the Virgin Islands.

In my conversations with Governor Juan Luis, the Governor told me that he was also impressed by this proposal. I think that it is important that that safeguard be included for us and if that is not included, I would urge that the committee use its influence to have included the quota that we have proposed.

I strongly support the Governor's statements regarding the airport and I point out that we have on St. Croix, in particular, an airport that we can expand very easily to 10,000 feet that could take anything that is flying and it would be very important to the United States for strategic reasons. I point out also, that the Virgin Islands is of strategic importance and it was for that reason that the Islands were purchased in 1917.

I would like to make one comment regarding the questions that I think that you directed to Ambassador Brock in relation to the hotel convention tax. Certainly I see your point, however, I must say that this would have a very adverse affect on us in the U.S. Virgin Islands and I believe Puerto Rico, also, because we are the only areas in this part of the Caribbean where the tourists can go, where U.S. citizens can go and get this tax credit at the present time.

Senator DODD. What about Jamaica?

Mr. DE LUGO. Well, that was recent, that was done by treaty. Jamaica, in terms of distance is far enough removed that I do not think that they are that competitive to us. A few years ago, it was only Puerto Rico and the Virgin Islands then it was extended to Canada and to Mexico and now to Jamaica. And if it went any further, it would just be very harmful to us. So, we do oppose that. I think that came up in our conversations with the administration. I think that is one of the reasons that it was not included.

[Mr. de LUGO's prepared statement follows:]

PREPARED STATEMENT OF HON. RON DE LUGO

Mr. Chairman and members of the Committee, it is a great personal privilege for me as the representative of the approximately 100,000 American citizens of the Virgin Islands, to share my views regarding the President's Caribbean Basin Initiative with you.

The U.S. Virgin Islands occupy the keystone position in the arc of islands which, with Central and South America, form the region. It is this strategic position which prompted the United States to purchase the islands from Denmark in 1917. In a troubled Caribbean, the Virgin Islands remain a bastion of American power and freedom.

I strongly support the development of a comprehensive Caribbean assistance policy. It is long overdue. The falling of Cuba within the Soviet orbit in 1959 and the missile crisis of 1962 should have brought home to our policy planners the new realities of the Caribbean Basin. It is an area where human suffering, Soviet-sponsored provocation, United States indifference, colonial traditions, and the development of mini-state nations have combined to expand leftist influence at America's doorstep.

In fashioning an economic initiative to change the root cause of the region's instability we must not forget that the hinge upon which such a projection must turn is precisely our two flag territories in the Caribbean—the Virgin Islands and Puerto Rico. Our territories are the only part of America that are at once a part of the Caribbean and the United States. Our residents share cultural, ethnic, economic, political, religious and colonial ties with neighboring islands, dating back several centuries. But our own needs must not be forgotten or overlooked. Our painful economic gains must not be jeopardized by any economic initiative in the region. The nations of the Caribbean will determine the sincerity of the American effort by observing how the United States treats the Caribbean-American citizens of its own islands.

In my testimony last Tuesday before the Trade Subcommittee of the House Ways and Means Committee, I set forth what I consider are political actions in the Administration's proposal which may jeopardize the economic situation of the Virgin Islands and suggested ways by which such peril might be avoided. For the sake of brevity, I will not repeat them here; rather, I will attach that statement as an appendix to my present testimony and request that it be made a part of the record. I must appeal to you as the representative of American citizens of the Virgin Islands, a territory which is devoid of any representation in the Senate, not to favor any proposal which, however generous and well-intentioned for our Caribbean neighbors, will adversely affect the hard-earned progress which we have achieved during the past two decades.

How, you may ask, does the Virgin Islands assist the United States in meeting its foreign policy mission?

The largest and most important naval training facility, the Atlantic Fleet Weapons Training Range, lies in the waters between the Virgin Islands and Puerto Rico.

The airport on St. Croix has a 10,000 foot runway capable of handling any military aircraft in service today.

We have in the College of the Virgin Islands, a first-rate educational facility which is an ideal institution for regional educational, technical and cultural interchange. Any initiative in the Caribbean must take into account the enhanced role which the College can play in promoting human understanding and our American way of life.

Further, the Virgin Islands can play an important role in the interdiction of the illegal drug and smuggling trade as well as a constructive role in seeking a solution to the perplexing problem of the illegal alien. Our community has not been free from these two problems with their attendant adverse social consequences.

Allow me to close by reiterating the desire of the Virgin Islands to play a part in the economic development of our less fortunate neighbors. Such efforts, however, should not create stability in foreign islands at the expense of the stability of the American Caribbean.

STATEMENT OF HON. RON DE LUGO, VIRGIN ISLAND DELEGATE, BEFORE THE HOUSE WAYS AND MEANS COMMITTEE, MARCH 23, 1982

Mr. Chairman, Members of the Subcommittee, Governor Luis of the Virgin Islands and myself are here today to testify regarding our concerns about the President's proposed Caribbean Basin Initiative.

I recognize that the Committee has placed the Caribbean Basin Economic Recovery Act on a fast track in order to accommodate the President's desire to aid the region in as short an order as possible. I agree that it is important for us to focus attention on assisting our economically depressed, and subsequently politically volatile, neighbors. There are, however, some real concerns as to the effect this Act will have on the U.S. flag territories in the Caribbean.

In his message to Congress last Wednesday, the President stated, and I quote: "Puerto Rico and the U.S. Virgin Islands have a longstanding special relationship with the United States. Their development must be enhanced by our policy toward the rest of the region. We have consulted closely with Puerto Rico and the Virgin Islands about the Caribbean Basin Initiative and the legislation I am requesting today will reflect Puerto Rican and Virgin Islands interest in many important ways."

I think it is great that the President has said the U.S. Virgin Islands and Puerto Rico must be "enhanced" by the policy toward the Caribbean Basin.

Let's be realistic. No one looking at this legislation can say that the position of the flag territories is enhanced. Yet, the fact is we are not that far from a compromise position which would allow us in the U.S. territories to survive a Caribbean Initiative.

For the flag territories to survive this initiative, certain safeguards and additional incentives are imperative. Some of these safeguards and incentives have been incorporated in the Act. Extension of the Accelerated Cost Recovery System (ARCS) and Investment Tax Credit (ITC) to companies operating in the flag territories, along with the direct investment and pass through provisions will help offset the impact of extending the ITC benefits to Caribbean Basin countries.

One safeguard which we stressed as a priority from the beginning of our negotiations with the Administration, is completion of the St. Thomas, Virgin Islands, airport. This airport has repeatedly been at the top of the black star airport list, one of the most dangerous airports in the world. This, coupled with the fact that there are only two airports in the Caribbean region smaller than St. Thomas', places us at a clear disadvantage in an area where access by air determines the success of tourism as well as other business development.

In the fact sheet on the President's OAS speech, announcing his Caribbean Policy, it was clearly stated that: ". . . legislation under the Caribbean Basin Initiative will reflect Puerto Rican and Virgin Islands interests in the following ways:

". . . Expansion of airports in the Virgin Islands and other measures to encourage the development of Puerto Rico and the Virgin Islands as a transportation hub for the Caribbean region."

Once the ADAP bill moves out of the Ways and Means Committee, we will expect the Secretary of Transportation to honor his commitment to us to support the earmarking of ADAP funds or to support other means to insure the completion of the St. Thomas airport project.

Of paramount concern to us in this entire initiative is the survival of our rum industry. In an attempt to offset the obvious threat to both the Puerto Rico and Virgin Islands industries, the legislation proposes to transfer the excise taxes on rum imported from beneficiary Caribbean countries to the Virgin Islands and Puerto Rico. While the Virgin Islands accepts the excise tax transfer as compensatory, we do not want to lose our rum industry. The industry means jobs and it means revenues which are tied to a concrete local produce. We do not want to trade these for a compensatory revenue transfer, the basis for which will be increasingly abstract once our industry disappears.

Ideally I would like to see rum, like textiles, excluded from the Act. I believe, however, that a compromise is more realistic. Thus, in addition to the excise transfer provisions, I urge the Subcommittee to amend the Act to provide the following: (1) require negotiations of agreements permitting Virgin Island rums to gain access to European markets along with other Caribbean states which presently enjoy such tariff preferences; and (2) have a progressive quota system to allow for orderly growth in duty free imports.

The immediate and complete elimination of the present tariff on Caribbean Basin rum from its present level of $1.62 per proof gallon represents a double-barreled threat to the Virgin Islands: it threatens the economic viability of the rum industry as well as the fiscal stability of the territorial government. Allow me to cite some statistics highlighting the importance of the rum industry to the Virgin Islands and to explain how the provisions of the proposed legislation fail to adequately protect such a vital sector of our economy.

Excise taxes collected on Virgin Islands rum sold on the mainland and rebated to the territory's treasury amounted to $36.2 million in 1980, or approximately 18 percent of all government revenues that year. It is our largest single source of government revenue. In addition, the rum industry employs approximately 3 percent of our total manufacturing workforce. In recognition of the importance of this industry and because molasses are not presently produced on the island, the government of the Virgin Islands annually contributes $2 million to assist in the purchase of molasses on terms similar to foreign Caribbean rum producers. I simply cannot over emphasize the critical significance of the rum industry to the economic well-being of the Virgin Islands.

Why will the elimination of the tariff endanger the rum industry? 85 percent of all Virgin Island rum consumed on the mainland is unaged rum shipped in bulk. This rum, which is purchased, bottled and sold under private labels, is priced at the lower end of the price scale thereby making it extremely price sensitive. Once the $1.62 per proof gallon tariff is reduced, foreign rum imports, of which 85 percent presently originate from Caribbean Basin countries, will become cheaper than our own rum and will therefore replace it. The purchasers of bulk unaged rum, conscious of their bottom line will use the least expensive rum for their private labels—and you can be sure that it will not be Virgin Island rum.

Foreign rum producers in the Caribbean already enjoy considerable economic advantages which are not available to our own rum producers. They are not subject to our minimum wage standards, to our occupational safety and health standards, to our environmental standards; they have access to low cost molasses and can ship on lower cost foreign flag bottoms. Of even greater importance is the fact that pursuant to Protocol No. 7 of the Lome Convention of 1975, those Caribbean rum producers can export their product into the European Economic Community and Canada duty-free, subject to certain quotas, while Virgin Islands rum is effectively prevented from competing in those markets because of the high tariff. Allowing foreign Caribbean rums to have duty-free access into European and Canadian markets without similar access for Virgin Islands rum producers is not a fair exchange and would limit our industry's ability to compete on the world markets. In fact, such a situation, coupled with the lower production costs of foreign rum producers resulting from the reasons already set forth, will certainly assure foreign rum producers with a competitive advantage which will most probably destroy our own industry. Furthermore, most of the rum producers operating on the Virgin Islands and Puerto Rico are multinational companies which also own and operate underutilized distilleries elsewhere in the Caribbean. All they have to do is transfer production from the Virgin Islands and Puerto Rico to their foreign facilities so that no new distilleries may even be built. Clearly the minimal regulatory burden together with the duty free access to foreign and United States markets would give foreign rum producers an unsurmountable competitive advantage over our own rum producers.

I believe that there are ways to further the expressed intent of the Caribbean Basin Initiative without placing in jeopardy the rum industry which is so vital to the Virgin Islands. One such way would be to provide for an orderly growth in the importation of duty free rums through the use of progressively higher quotas. As has been proposed in the case of sugar imports, the President, in furtherance of this nation's foreign policy interests, should establish an annual duty free quota for particular Caribbean Basin countries. These individual quotas, which could begin with an amount equal to last year's imports into the United States, could be increased by 10 percent annual increments. Amounts imported into the United States which exceed the quota would be subject to the applicable tariff on foreign rum for that year. The quotas would remain available and would continue to expand annually only if the following two conditions were satisfied each year:

(1) Total exports of Virgin Islands' rum to the United States, exceeded 95 percent of their 1981 base year levels; and

(2) Virgin Islands' rum exports had access to markets in Canada, the European Economic Community, and other Caribbean Basin Initiative partners on terms and conditions at least equal to those available to the rum exported from the particular country seeking a duty-free quota from the United States.

I believe that this proposal represents a fair compromise. It assures that our Caribbean neighbors will be able to share on a duty-free basis any expansion in the over-all rum market while insuring that the Virgin Islands' rum industry will not be destroyed.

I further believe that as an integral part of the Caribbean Basin Initiative, the Congress should reduce the competitive disadvantages of industry located in the Virgin Islands and Puerto Rico by removing unnecessary regulatory burdens which should not be applicable because of the particular geographic or environmental condition of these islands. This is particularly true with the Virgin Islands rum industry. The Environmental Protection Agency has required the construction of a $4 million waste treatment plant to treat effluents which are presently discharged and dissipated into the Caribbean Sea, although there is no clear proof that such effluents are harmful to marine life. The cost of such a plant could exceed the book value of the present rum distillery's facilities. Clearly, such regulatory burden contributes to the cost of Virgin Islands' rum at the expense of its competitive position, because foreign producers do not have to bear such a burden.

I am concerned that Title II of the Trade Act does not provide sufficient safeguards for Virgin Islands industries, particularly its rum industry. Title II provides an ex post facto remedy to harm which our industries could not absorb. I, therefore, request that the law be liberalized to trigger action under Title II more effectively.

Let me briefly address some other issues relating to our rum industry which arise out of provisions of the proposed legislation. Subsection 104(b) of the bill does not provide for mandatory "snapback" of tariffs in the event of a reduction in excise taxes covered into the Virgin Island treasury. Because of the essential nature of these revenues to our government, any reduction in such revenues should automatically trigger the reinstitution of the tariff on foreign rums. Therefore, I strongly recommend that the "snapback" provisions be made mandatory upon the reduction in rum excise taxes being covered into the Virgin Islands treasury.

Similarly, Section 302 does not provide that the Virgin Islands shall receive a share of all excise taxes collected on foreign imported rums. It provides that all such excise taxes shall be covered into the Virgin Islands and Puerto Rico treasuries only if the amount per proof gallon on foreign rums paid over does not exceed the amount per proof gallon on Virgin Island or Puerto Rican rum paid over to the treasuries of those territories. Clearly, if the excise tax on foreign rums were to be raised, or if the excise tax on Virgin Island and Puerto Rican rums were to be lowered so that a differential would result in a higher excise tax on foreign rums, then the amount of excise taxes collected pursuant to such a differential would not have to be covered into the treasuries of the possessions. I believe that there is no basis for such a distinction.

Finally, I should like to point out that Section 302 does not provide the Secretary of the Treasury with any guidelines for establishing the formula for allocating between the Virgin Islands and Puerto Rico any excise taxes collected on foreign rums. Given the precarious economic situation of our rum industry relative to that of Puerto Rico which presently controls 87 percent of the domestic rum market, I should like to offer the following formula for allocating such excise taxes:

(1) In distributing any excise taxes collected on foreign rums imported into the United States the amount of such taxes shall first be made available to the Virgin Islands to make up the difference, if any between the amount of excise taxes collected on sales of Virgin Island rums in the United States and the amount of such excise taxes covered into the treasury of the Virgin Islands in fiscal year 1981; and

(2) Any amount remaining shall then be distributed between the Virgin Islands and Puerto Rico in proportion to their sales of rum on the United States market; provided, however, that the Virgin Islands shall in no event receive less than 25 percent of any remaining funds.

This formula will enable the Virgin Islands to provide our rum industry with additional resources with which to assist in competing with their stronger rivals throughout the Caribbean.

In summary, the Virgin Islands is willing to share with its neighbors an expanding domestic rum market as part of our contribution to the goals of the Caribbean Basin Initiative; but we are willing to do so in an orderly manner which will not jeopardize one of our few viable industries, and one which is so important to the fiscal and employment situation of the territory.

With these provisions, we believe our rum industry could survive duty-free rum import from other Caribbean countries.

Part of our negotiations with the Administration, not reflected in the legislation, is support for a bill I have introduced, H.R. 5113, which is currently in the Ways and Means Committee. The bill is designed to make the Virgin Islands more competitive with its Caribbean neighbors by reducing the 30 percent tax withheld on passive income, such as interest and dividends, to 10 percent. This 30 percent tax has inhibited business investment in the Virgin Islands, since the tax is viewed as punitive. I would ask this Committee and the Administration to support this legislation, particularly in view of the CBI.

Another area of concern to the Virgin Islands is the demise of our watch industry. The industry has gone from employing 1,300 persons add-over $100 million in wages and taxes to the Virgin Islands economy, to employment of less than 300 persons in the last two years.

To save our watch industry, I introduced H.R. 5738. The bill eliminates the present requirement that at least 30 percent of the value be added in the Virgin Islands, which precludes our industry from competing with the low tariff schedules for watch parts. My bill also adds production incentives designed to reward labor intensive watch companies.

I consider support of this fairly innocuous bill to save one of our existing industries a small concession in light of the Caribbean Basin plan which threatens to inhibit new industry in the territory.

Furthermore, in view of the 25 percent local content rules of origin test proposed for beneficiary countries, I question whether my bill sufficiently protects our watch industry. Possibly, given the difficulties of the past, a limited exclusion may be necessary for products of beneficiary countries which utilize materials from Column II nations.

I have some additional concerns with regard to the 75/25 rules of origin test. First of all let me say that I appreciate inclusion of the Virgin Islands and Puerto Rico as beneficiary countries for purposes of the 25 percent local content rule. In addition, I urge a minor amendment to the provision requiring goods from beneficiary countries to go directly to the United States in order to be eligible for duty-free treatment. The amendment would allow these goods to go through the Virgin Islands without losing their duty-free status. This would be consistent with the twin plant concept which would allow the Virgin Islands and Puerto Rico to provide the skilled labor add-ons to Caribbean Basin products.

In this context, I do want to say that I appreciate the endorsement of my legislation, currently before the Subcommittee, which would raise the foreign content permitted from 50 percent to 70 percent. I also appreciate the language in the Act allowing the Virgin Islands and Puerto Rico to receive treatment equal to that of beneficiary countries under the 75/25 test, if preferable. Again, I point out that, given our position as offshore areas subject to U.S. laws, this could still leave us at a competitive disadvantage.

In closing I want to make clear that the Virgin Islands stands ready to play its role, along with Puerto Rico, as the part of this country most able, through our cultural affinity, to link U.S. interests in the Caribbean with the needs of our neighbors. We are pleased to see that the Administration supports development of Eastern Caribbean Center at the College of the Virgin Islands, and note its plans to use the Virgin Islands and Puerto Rico for agricultural training and assistance programs.

My hope is that a program by the United States to help our Caribbean neighbors will contain sufficient safeguards to assure the protection of U.S. citizens living in its territories. The Amendments I have proposed today will make the Caribbean Basin legislation do that.

Senator Dodd. Thank you very much. I will point out that I have a great affection for Puerto Rico. I spent a great deal of time in Puerto Rico. It was in Arrecibo and Entuado that the people of those two communities were generous enough for 13 weeks to put up with me as I struggled to learn Spanish in the Peace Corps training centers there, before I went on to the Dominican Republic, where I spent 3 years as a Peace Corps volunteer back in the middle 1960's.

And I know of the close relationship between Puerto Rico and the Dominican Republic and the issue of rum is obviously going to put a strain on that relationship. I wonder if you might comment. How is that relationship going to be affected by your suggestion on just limiting the one-way free trade to bottled rum rather than in bulk?

I realize that is an over simplification of your proposal, but I am wondering if you have had any opportunity to discuss this with the Guzman government or with others in the Dominican Republic?

Mr. de Lugo. No, we have not had an opportunity to discuss it, Senator. At this moment none of the Caribbean countries are making rum bulk shipments to the Nation. They are only making bottle shipments. So, by eliminating the tariff barriers we would be opening a new avenue for them for competition against our rum. I guess the benefits for the elimination of the tariffs for the bottled rum would be significant to them and the other thing would just put our industry in a very difficult position.

As you well know, Senator, we have to comply with Federal and local strict environmental laws and the processing of rum creates a waste in Puerto Rico that we are now in the process of installing very costly equipment to control the elimination of those wastes that are being dumped into the ocean, so that when they are finally dumped there will be no contamination.

In other countries there are no limitations to what they can do as far as environmental concerns are involved and they put us into a very competitive disadvantage.

Senator Dodd. I raised with Ambassador Brock the problem that I saw, and that I think all of you here highlighted.

I am delighted to hear, by the way, that you have had close consultation with the administration, and I have asked the Ambassador to give us the details of his consultations with others. Frankly, I was left with the impression that was not the case in some of the other countries. I hope to find an answer to that.

But aside from the bilateral design, the consultation that occurred makes sense, given the similarities of the economies and the dependency of those economics on similar goods, products, and so forth. There is an awful lot of communality and there will be, obviously, some competition in all of this, as evidenced by your testimony.

What sort of consultation has occurred among the respective beneficiaries of the Caribbean Basin Initiative in some way to assist us on this committee and the other respective committees of the Congress in a bipartisan fashion trying to draft an initiative that is going to effectively deal with the needs of the region? Taking into consideration the inherent competition that exists, we want to avoid the kind of situation that we could easily fall into when we are otherwise trying to keep the scales even. Invariably, someone comes out on the short end of the stick.

I agree that our flag States, Puerto Rico and the Virgin Islands, ought to be given primary consideration. I do not disagree with that at all.

But as beneficiaries of this program—and obviously as people who have far greater sensitivities, I believe, about the problems of the Caribbean Basin—how do we deal with that and is there a proper forum with that kind of intracommunication between the beneficiary states so that what we would do here would not cause us more political difficulties than we will be resolving by this program?

Governor **Romero-Barcelo**. Let me tell you what we have been doing. In the first place, we have taken initiatives in Puerto Rico to make contact with other Caribbean countries and islands.

We sent a delegation of people from Puerto Rico to Jamaica to sit down with them and discuss problems. The Prime Minister and other representatives from Jamaica came down to Puerto Rico and we coordinated with them on how we can help them improve their infrastructure, and how can we help them improve their health service programs and their Economic Development Administration, focusing on industries to be established in Jamaica.

So, we have been working with them so well that they told the U.S. State Department they feel that through Puerto Rico they can receive more effective and immediate help if it is properly coordinated.

We have also, in view of this, suggested to Secretary Haig and to the Assistant Secretary for Latin American Affairs, Tom Enders that we should establish some group or council where all the participant recipient countries can be represented, to meet periodically and discuss the needs of the several countries and how those needs can be met beyond the political type of meeting that exists in the Organization of American States. We need something that is geared to the social-economic needs of the different beneficiary countries.

We would definitely like to have the central offices of that group located in Puerto Rico. We are going to be submitting some kind of written proposal to the State Department for such a coordination plan.

Senator **Dodd**. I think that is excellent.

Governor Luis, would you care to comment on that?

Governor **Luis**. The timing with which we were confronted, my task force, in putting together our proposals did not permit us to enter into such a forum with our neighboring Caribbean Islands because our direction was not defined.

Now that we have defined our direction we have an excellent opportunity to do so, and I will start such a move as soon as I get back home.

Senator **Dodd**. Thank you. Ron?

Mr. **de Lugo**. Senator, I might say that I believe both Puerto Rico and the Virgin Islands are in a position to play a tremendously constructive role for the United States in this area. I know in our area, the Virgin Islands, when we think of the Caribbean we think of the eastern Caribbean.

When we first heard about this great undertaking we were thinking in those terms, quite frankly. We look, and not enough is being done for our neighbors, the islands of the eastern Caribbean. With all the money that is being sent down there—one of the Senators, maybe it was Senator Tsongas mentioned it—for the eastern Caribbean, all of those little ministates, will only get $10 million spread out among them. They do need more help.

We have a tremendous relation with those areas. It has been proposed that at the College of the Virgin Islands there will be set up an Eastern Caribbean Institute so that the people from the other islands, Antigua, St. Kitts, and these other islands, could come there and study. We can have a lot of communications with them.

We have a common language, we have a common culture. We have a tremendous amount of people from those islands who are presently in the Virgin Islands, who are long-term residents of the Virgin Islands and citizens of the United States.

Senator **Dodd**. I am glad to hear you say that, in a sense. I mentioned a second ago about how there is a lot of communality in certain economic terms. Where I think many people make a mistake is not appreciating the diversity that exists in the Caribbean Basin as a whole. They talk about the western Caribbean, the large islands and the eastern Caribbean as all sort of a homogeneous collection of countries. They totally misunderstand that region.

I am not sure we are taking that into consideration enough as we try and develop an initiative. I am not sure we are not trying to bite off more than we can chew by dealing with the economic difficulties of the eastern Caribbean and the political difficulties that exist in the western Caribbean, including obviously El Salvador.

I wonder if the four of you would care to comment on our policies with regard to El Salvador and Central America generally. Are we on the right track down there, should we be proceeding to a negotiated settlement? You are obviously getting as much mail, I am sure, Governor, about our policies in El Salvador as I get—probably more.

Governor **Romero-Barcelo**. Senator, I would like to make a comment about what you said about Puerto Rico before. I want to say that I also have very strong ties with Connecticut. I went to school in Connecticut for 4 years, and two of my oldest children were raised in Connecticut.

Senator **Dodd**. I knew there was something I liked about you. [Laughter.]

Governor **Romero-Barcelo**. So, I have had very close ties with the State, which I like very much.

Senator **Dodd**. Good. Come on home, all is forgiven, as they say.

Governor **Romero-Barcelo**. This is also a way of getting my thoughts together when I answer your question about El Salvador, the type of question nobody likes to get involved with now-a-days.

I do not know if there is an answer, Senator. I do not know if we are doing the right thing or not. But I would say one thing, that we have seen—and I have seen—literature which is printed by the revolutionaries in El Salvador. They want to establish peace now so that from that plateau they can recoup their strength and then keep on with the conquest of El Salvador.

I think the people who talk about negotiating with the revolutionaries forget what the revolutionaries themselves are saying about their strategy. Before we sit down to discuss with any adversary we must know how they are thinking and what their plans are.

It is obvious that their plan in El Salvador is to try to eliminate some of the mistakes they made in Cuba and some of the mistakes they made in Nicaragua. They want more time to build up the economic structure of the country before they take the second revolutionary step.

So, do not be misled. If we were to sit down now with them we would just be playing by their agenda and not our agenda.

Now, what is the other alternative, what is a better answer? I do not know. But I think that is the worst answer. I think to do that is to play into their hands and to make sure that El Salvador will end up in Communist hands. I certainly do not think that is what we want.

Senator DODD. I presume that you do not think a military solution will work, either.

Governor ROMERO-BARCELO. I do not think it will work. There needs to be a political and economic solution. I have told the Secretary of State, and stressed to the State Department, that this Caribbean Basin Initiative is very strongly geared toward economic development and that alone is not sufficient.

I think the greateset role that Puerto Rico can play in helping the Nation with relationship to the Caribbean is by using our know-how and our experience to help these nations, and the countries, and the islands improve their health delivery systems; improve their educational systems; improve their vocational and technical training; and improve their water distribution systems. We can help improve all the things that reach the people directly, so that the people in those countries and those islands see that this Nation is interested not only in economic development but in improving their social and economic conditions, improving their lot, and helping them help themselves.

Senator DODD. I said to Ambassador Stoessel—and maybe I am in a very small minority who believes this—but to me first, last and always the problems here are political. That unless you address the political problems of Central America, the Caribbean Basin, you can spend all the money you want on economic programs and it will go for naught. Unless you get your political act together, your economic program is meaningless.

Maybe this is an exaggeration. Do you agree with that or not?

Governor ROMERO-BARCELO. I agree with you 100 percent, Senator. We are at a disadvantage because the Communists can go in and say, "We are going to help you," and they help them politically with propaganda, with arms, with training, with money, until that group gets control of the nation. Our system does not allow us to do that.

But we must find a way to reach the political groups in those areas, the ones that believe in democracy and help them: Help them strengthen their political organizations; help them carry out a campaign in a positive manner within the country, and help them have strength.

But we leave them and see who is going to win, and then we go and say, "We want to be your friends," to whomever won. Then, I think, it is a little bit too late.

Senator DODD. Do you want to comment on that, Baltasar?

Mr. CORRADA. Yes; I would like to say this, there is the question at this stage of the game, legislation of this nature like the CBI would not prove to be an adequate policy instrument to deal with the extreme situation we find in El Salvador right now, and which has to be dealt with very carefully.

But I do believe that this policy, if implemented correctly, can precisely avoid the type of extreme situation which we now find in El Salvador.

I agree with you that it is not just a matter of pouring money or economic aid, or whatever, into this area. I think that given all the careful consideration that must be given to the fact that these are sovereign countries and obviously full adherence to the principle of nonintervention in the internal affairs of other countries.

But I do believe that if we negotiate, for instance, free trade agreements on a bilateral basis with these countries—it is not just a question of entering into agreements that are going to help a few American investors and their business associates in those areas, or a few families that control much of the economic wealth in some of those countries.

I think that we have to look deeper and see how we can, in those consultations with each of the beneficiaries, help promote policies that are going to be helpful to the workers there, to the poor people there, and then the United States will be perceived as someone who is helping the people from those countries, not just the governments or the prevailing economic interests in those areas which may not be necessarily those that promote the well-being of the vast majority of the residents of those areas.

I think we have to do something in conjunction with this economic aid to get to their social problems. We are not going to adopt a patronizing, paternalistic attitude of going and telling the people, a country, what they have to do in terms of solving their problems.

But I think we do have to bring about through their governments an improvement, reform to their social and economic structures if this is going to be meaningful. Otherwise we are giving money to those who already have money and we are leaving the vast majority of the people of Latin America out there on the fringes where they are and where they can be, of course, the victims of all kinds of leftist propaganda or the victims of those from the right who take power and just exploit them.

Senator Dodd. Let me just add, I totally agree with what you said. I also think you end up blaming the very entities that should not be responsible for reform in a country.

I said it a little while ago—maybe not as clearly as I would have liked—the private sector is absolutely essential in terms of economic development. But the primary concern of the private sector is not economic development, those are not contradictions. Their role is not to become the catalyst for economic change or reform. In fact, they never have been.

And yet, my concern a little bit with the initiative is that is we place the responsibility for economic development and change on the shoulders of the private sector, they are not going to do it. It is not their role to do it. Then we hold them up as the target for the responsibilities of why things have not improved, why there has not been change in these countries.

It has never been their role. The private sector historically maintains the status quo, at the very least the status quo in those countries.

To assume that they are going to somehow now become the "engine of reform" or the "engine of change" or the "engine of economic development," I think, is to place a tremendous burden on them that they cannot meet, and then we end up having a self-defeating policy, in a sense.

You are absolutely right in your assessment.

Ron, do you want to comment?

Mr. DE LUGO. Yes; I just want to say I agree with what you said. I usually agree with the chairman—whoever the chairman happens to be.

Senator DODD. Whoever the chairman happens to be. [Laughter.]

That is why you have done so well for the Virgin Islands.

Mr. DE LUGO. Thank you very much.

No, I do quite sincerely agree with what you have said. But I would like to say that we are fortunate to have Puerto Rico and the Virgin Islands—I come back to that point—because, you know, Puerto Rico is in a position to deal quite effectively, I think, with the countries that have a Latin background. They can also deal with many of the islands in the Caribbean because of their success in developing a modern community.

And at the same time, the Virgin Islands have a lot in common with the Caribbean islands which were colonized by Europeans.

Now, the one point that I would like to make again strongly is that I would like to see more help go to the eastern Caribbean. But our concern is that when that help is given, that it is not given at the expense of the Virgin Islands or Puerto Rico.

This is what our conversations with the administration have been. We have had long, and lengthy, and very good conversations. But there are still safeguards that must be put into this initiative.

The President in transmitting his message to the Congress last week said that this proposal should enhance the position of the flag territories—Puerto Rico and the Virgin Islands. At the present time, in all honesty, it does not enhance our position.

We are fighting like the dickens just trying to protect our position. So, it is imperative that our rum be protected and that the other proposals that we have made be given the most serious consideration because very quickly I will say this, that there was no proposal that was made to the administration by the Virgin Islands that was not a realistic proposal.

We did not go in there with a laundry list of things that were off the wall. We were very sensitive to the administration's position, the economic conditions here in the United States, their policy. Our proposals are proposals that we quite frankly know they can live with.

I think if they will incorporate them in this CBI that we will be in a position to give it our full support.

Senator DODD. Thank you very much.

Governor Luis, did you have any final comments?

Governor LUIS. Yes; we are very concerned in the eastern Caribbean region because, as you are aware, communism has already infiltrated the tiny island of Grenada.

The Caribbean Basin Initiative should be tailored to take into consideration the concerns that you have expressed and the concern that the members of the panel have expressed. I think that now is the time in which we should all capitalize to stem communism further in these areas.

The approach is something that will have to be thoroughly researched and thoroughly studied because evidently this is the problem area, everyone seems to have the idea. The problem is, how do we apply the idea. I think that is what leaves us all with question marks.

I think this is the area that should be studied thoroughly before you move with a plan.

Senator Dodd. I think you are correct.

I appreciate the testimony of all four of you. I apologize on behalf of my colleagues. All of you can appreciate it, you have all been in similar positions and are in similar positions where you know that trying to keep together a committee for 5 hours is rather difficult.

But on behalf of both the majority and the minority of this committee I express to the two Governors, and of course our colleagues from the House side, our thanks for your testimony and the issues you have raised.

I am confident that the matters which you have brought up specifically will get a proper and full airing. You can be quite sure, Governor Romero and Governor Luis, that both Ron and Baltasar will be sitting on top of us over here, watching what we are doing to make sure that it does not adversely affect Puerto Rico and the Virgin Islands.

So, on behalf of the committee we thank you for your testimony, thank you for being here, and thank you for your patience as well in waiting until we completed our first panel.

Mr. de Lugo. Thank you. I just want to point out for the record, Mr. Chairman, that your colleague, Senator Tsongas who was also in the Peace Corps, had his training in the Virgin Islands.

Senator Dodd. I neglected to point that out. Thank you very much.

Governor Romero-Barcelo. Thank you very much.

Senator Dodd. The committee stands adjourned.

[Additional questions and answers follows:]

AID's Responses to Additional Questions Submitted for the Record

BACKGROUND STATEMENT ON SUGAR AND ALCOHOL FUELS

The international prices of sugar have always behaved in a cyclical pattern that has had consequences on medium and long term planning for the Caribbean Basin countries. The demand for internationally traded sugar has grown at a very slow rate. The explanation is that the demand for sugar (particularly the United States and to a lesser extent Japan and Canada, which together account for one half of all imports in the free world sugar market) is being replaced by corn sweeteners, particularlyHigh Fructose Corn Syrup (HFCS). The per capita consumption in the United States alone has grown from a record high in 1972 of 102.3 pounds to an estimated 79.7 pounds in 1981. During this same time period HFCS has increased from .9 pounds to 23.1 pounds. This means in volume HFCS alone substituted a total amount of 2.65 million tons of sugar in 1981. HFCS delivery in 1982 is estimated to be 2.7 to 3 million short tons.

In the developing country markets the per capita sweetener consumption is very low. The behavior of the world's markets are greatly influenced by the occasional imports of the U.S.S.R. and China. The U.S.S.R. has a bilateral agreement with Cuba, but it also covers on the open market to the extent not covered by the sugar imports from Cuba and its domestic production.

Within this prospect, the European Economy Community (EEC) has, during the past years, increased its exports to the world market reaching an estimated

4 to 5 million tons. Prospects for higher sugar demand in the region look bleak. Even though the Caribbean Basin Initiative (CBI) may offer some relief, the fact is that for the sugar industry of the region to produce sugar in a cost-efficient manner, the sugar industry must look at other possibilities of diversification. Experience has proven that some of the possibilities for diversification are:

1. Alcohol for fuel;
2. Sucrochemistry; and
3. Human food and/or animal feed.

Further, full recovery of effluents such as CO_2, yeast and salt will further reduce the cost of production.

In terms of cost—the cost of imports of gasoline in 1981 was $1.00 per gallon in Colombia, but taking into consideration foreign exchange needs, this translates to a much higher cost for oil and its products. Today's sugar prices (around 11 to 12 cents per pound) are much lower compared with the much higher prices at the end of 1979 and 1980. The economic justification of using alcohol must take into account the multiplier effect by way of employment, foreign exchange and further economic diversification. For Latin American and Caribbean economies to generate revenues for rehabilitation of the sugar industry (a very old established industry) enhanced revenues must be possible for the necessary new investments to be made during this decade.

A restructuring of the sugar industry by way of regional use of energy inputs like bagasse and electric cogeneration combined with alcohol production and other uses will be necessary. From a recent study of selected countries, it is indicated that an investment of over $1 billion is needed to accomplish this.

For example in the Dominican Republic, national gasoline prices are much higher than average, creating a more favorable economy for the substitution of gasoline for alcohol. At today's sugar prices the alcohol possibility is even more attractive when compared to gasoline prices. National figures show that there is no conflict between the production of alcohol and sufficient land and food for other uses. In Columbia, less than 1 percent of the land is needed for 20 percent alcohol replacement. There are no logistical problems since refineries will handle the alcohol in the distillation stage and already have the network for distribution.

U.S. expertise can be extremely helpful in achieving these goals from not only the transfer of technology and sales of equipment for making the sugar industry much more efficient, but also will offer increased opportunities for the private sector of the U.S. to work directly with the private sector of these countries which have historically made up the sugar industry.

The sugar industry has a production goal of ten million tons but in reaching that goal it will trigger the operation of the International Sugar Agreement. Such countries as Honduras and Nicaragua as well as other countries have plans to build new sugar plants at times when sugar prices may be at an all time low (7 to 8 cents per pound). With these depressed prices there will be less capability to survive in the industry.

Question 1. First, do you have any information which would indicate the foregoing information is correct?

Answer. The "Background Statement on Sugar and Alcohol Fuels" is not so much incorrect as incomplete. First, although recognizing that world sugar prices "have always behaved in a cyclical pattern," the analysis seems to be based on today's low prices rather than on what prices can be expected to average over the long run. Second, there is no linkage established between long-run expectations about sugar prices and long-run expectations about petroleum prices—a crucial relationship for determining the economic viability of alcohol production from sugarcane. Third, even at today's low prices the statement does not identify the specific countries in which the demonstrated cost of production of alcohol from sugarcane will make this product cost-competitive with gasoline in the absence of subsidies. Fourth, the analysis does not compare economic rates of return to investment in sugarcane with economic rates of return to alternative investments.

Question 2. Do you believe that these countries which have a sugar based economy should diversify that base?

Answer. The studies on alcohol production from sugarcane and the forecasts for the world sugar and sweetener markets that we have reviewed suggest that, in general, countries that are heavily dependent on sugar as a source of foreign exchange earnings would be well advised to diversify that base. They should be carefully examining alternative uses for their marginally profitable sugarcane lands that offer the promise of greater net earnings per hectare and greater foreign exchange earnings or savings than is likely to be provided over the long run by sugarcane.

Question 3. What specifically has the AID Latin American Bureau done in the Energy Sectorial Analysis to assist the various countries in integrating that analysis into the rehabilitation and diversification of the sugar industry, which is an already established industry?

Answer. The energy sectorial analyses were intended as initial efforts to get a baseline understanding of energy and its impact on the development process in those countries in which AID is working. The analyses carried out to date have been successful. Energy options have been clarified, and in many cases there has been an awareness generated that the sugar industry, for example, must and can be made more energy efficient.

The energy sectorial analyses track energy in the sugar industry primarily as fuel flows. These fuel flows often include bagasse, a sugar industry by-product, which is or can be used for fuel in the sugar industry and elsewhere. Bagasse can often provide all of the direct energy needed in the processing of sugar or the distillation of fermentation-based ethanol.

As baseline studies, the sectorial analyses were not designed to look at the sugar industry (or any other industry) as a complete and dynamic energy and economic system. Thus, more research would be needed to determine the full range of energy and associated economic impacts on the sugar industry. This research, involving a more complete integration of energy and economic analysis, would more clearly identify the full range of opportunity and problems facing the industry as it is seen as an integrated part of national and international energy, economic, and environmental systems.

AID is now exploring ways in which such comprehensive, integrated analyses might be carried out. These analyses would result in a better understanding of the implications of various development paths and investment alternatives. Diversification into fields such as sucro-chemistry may offer important alternatives for the sugar industry in many of these countries. In addition, closer examination of the options may indicate that a still more profound diversification, away from sugar itself, may be one of the best approaches to sustainable and equitable growth for certain areas.

Question 4. With the prospect of substantial trade opportunities what specific actions has AID or your Trade and Development Program (TDP) taken to get American business and industry in contact with the key decision-makers and private sector people involved in these countries' sugar diversification programs? Also what are your plans for future action in this area?

Answer. The Trade and Development Program (TDP) has considered several proposals related to sugar diversification. At this time, they plan to finance a study of the feasibility of rotating soybeans with sugar cane in Jamaica. A second proposal, which is being considered by TDP, is for a feasibility study for the growing of kenaf in place of sugar cane in Belize and the Dominican Republic. (Kenaf is a fiber crop belonging to the same family of plants as sisal and has similar uses.)

AID can fund additional research in the sugar diversification area. We can respond to specific research proposals from business firms and undertake research with regional and bilateral governmental agencies over a longer-term basis, as appropriate.

Question 5. If the estimated $40 million cost of the proposed investment tax credit scheme were recast as concessional loans, could your agency's Private Enterprise Bureau manage such a program targeted to the region's private sector?

Answer. Should the investment tax credit proposal be recast as concessional loans the Bureau for Private Enterprise could manage the administration of a program targeted to the region's private sector. It must be emphasized, however, that we deem it far more advantageous to the Caribbean private sector that the $40 million in question remain as an investment tax incentive program rather than concessional loan. The CBI proposal is a well balanced and carefully conceived program for economic revitalization and to tamper with one of the major components—the investment tax credits—could play havoc with the totality of the CBI's effectiveness.

Question 6. To what extent, in your view, should our economic assistance in the Caribbean be fast-disbursing, balance-of-payments support aid? Are there parts of the region, such as the Eastern Caribbean Islands, which, in your view, need projectized aid for infrastructure development before they can benefit from investment and tax credit programs?

Answer. In view of the acute balance-of-payments crises facing a number of Caribbean Basin countries this year, the proposed supplemental appropriation for the region will be utilized almost entirely for fast disbursing balance-of-payments assistance. The objective will be to help these countries achieve economic stabilization and recovery in the short run. We must keep in mind, however, that development is a long-term process that cannot be addressed by short-term measures alone. Consequently, we are also increasing the level of project assistance for the region to address long-term constraints to development. One of these constraints, in some cases, is the lack of adequate infrastructure to allow the countries of the region to benefit fully from the investment and trade components of the Caribbean Basin Initiative. While we will continue to look to other donors such as the World Bank and the Inter-American Development Bank, possibly in conjunction with private lenders, to provide the bulk of the external financing for major infrastructure improvements, AID will also be reviewing the needs in this area. Much of our increased project assistance will be designed to help strengthen and revitalize the indigenous private sectors in the Basin countries so as to increase investment, output and employment. At the same time we will continue to support programs in such traditional sectors as agriculture and rural development, health, population planning and education and human resources development.

[Whereupon, at 1:15 p.m., the committee adjourned, subject to call of the Chair.]

CARIBBEAN BASIN INITIATIVE

WEDNESDAY, MARCH 31, 1982

United States Senate,
Committee on Foreign Relations,
Washington, D.C.

The committee met, pursuant to notice, at 10:10 a.m., in room 4221, Dirksen Senate Office Building, Hon. Charles H. Percy (chairman of the committee) presiding.

Present: Senators Percy, Pressler, Pell, and Dodd.

The Chairman. This morning the committee—and when I say "this committee" I see a bunch of empty seats—is holding its second set of hearings on the Caribbean Basin Initiative.

I might explain the absence of many of my colleagues because some of us were here last night to midnight and these are the last 2 days of the session. We have an emergency, as you know, in which a continuing resolution must be passed by midnight tonight or we will run out of money and the Government will close down once again—which we are not going to let happen—but we have a lot of problems.

So committee members are off on other things. That is no indication, however, of the lack of deep interest in this measure. Committee members have called me saying that they could not be here but indicated their intention to read carefully the transcript. We are giving very high priority to this matter of the Caribbean Basin Initiative.

We will hear now from three panels of witnesses. The first will be corporate executives whose firms are active in the region. The second will be a representative of the AFL–CIO, and the third panel will consist of economists with particular knowledge in the Caribbean areas.

Last week we heard testimony from the administration witnesses. Several of my colleagues and I had questions about the CBI's overall impact in the region and on the United States. We all agree that this is a very important area for the United States, but some kind of more affirmative program for the United States makes sense.

I would like to say also that we are working with the administration in developing a whole new category of ambassadors for the area, absolutely reaching out to get some ambassadors who are strong in business background who really will be able to help tremendously in the economic development program.

I think it is quite important that the former Chairman of the Board under whom I served for many years, David Rockefeller, is devoting himself to Jamaica, and with all of his broad interests he is spending considerable time seeing that that country, which now is under a stable, sound democratic government, really has a chance to move ahead.

We have had questions about the package, however. For example, will the trade and investment incentives have a major impact on the economics in the region even over the long run? What will it take to stimulate foreign and domestic investment in these countries and in what way can the U.S. Government be most helpful in encouraging this process?

What kind of impact can we anticipate on our own labor and industry? Are there specific U.S. industries which this program could particularly harm?

I spent this past weekend, the full weekend, in Peoria and it is a good testing place for the Nation. There were questions raised there. People were skeptical, but their questions were easily answered when they saw the direct relationship between stability in this hemisphere and economic well-being and progress and growth in the Caribbean area.

These are the kinds of questions that I hope we can discuss with our distinguished witnesses this morning. First, I would like to welcome our panel of businessmen to this committee. While this committee must make a determination on the administration's request for $350 million in supplemental funds for the CBI, the central focus for the initiative is trade and investment. The key to the whole policy is going to be whether these incentives really motivate businessmen to undertake new investments in the region.

In last week's hearings I noted that the Chicago Association of Commerce and Industry had pledged its support for the CBI. We would like to discuss with you gentlemen this morning your thinking about what we can legitimately expect from the U.S. business community in terms of new investment and trade stimulation in the region. You all have extensive experience working in the Caribbean Basin countries. We believe your practical knowledge can greatly assist us in our deliberations.

I, therefore, would suggest that we begin with Mr. Archie L. Monroe, president of Esso Inter-America, who will be followed by Charles W. Parry, president, Aluminum Co. of America, and Stanley Urben, Haitian-American Chamber of Commerce.

We will also hear from Dr. Rudolph A. Oswald, director, Department of Economic Research of the AFL–CIO. As I understand it, the AFL–CIO is primarily concerned with the impact of the incentives for the region on the job market of the United States. Dr. Oswald has worked closely with the Office of the U.S. Trade Representative on trade negotiations.

Mr. Monroe, would you please begin? We are pleased to have you.

STATEMENT OF ARCHIE L. MONROE, PRESIDENT, ESSO INTER-AMERICA, ON BEHALF OF THE COUNCIL OF THE AMERICAS AND CARIBBEAN/CENTRAL AMERICA ACTION, CORAL GABLES, FLA.

Mr. Monroe. Thank you, Mr. Chairman. My name is Archie Monroe. I am president of Esso Inter-America, Inc., Exxon Corp.'s regional affiliate responsible for operations in Latin America and the Caribbean. We have conducted business operations for over 50 years in this region. We are currently represented in 17 of the 24 countries under consideration in the Caribbean Basin Initiative. Our regional office is located in Coral Gables, Fla.

However, my testimony here today is on behalf of two nonprofit groups in which my company, and I personally, actively participate—the Council of the Americas and Caribbean/Central American Action—organizations which represent a substantial majority of private investments in that region. Both organizations welcome and support the President's Caribbean Basin Initiative.

Today I am pleased to share some general observations with you as a businessman and as a Florida resident. My first observation is that the stakes for the United States and its citizens of this effort are as real and as immediate as they are for the people of the Caribbean Basin, where high unemployment, high inflation, rising debt load, and falling commodity prices have combined to create an environment of economic instability, indeed of desperation.

While economic recovery efforts alone cannot solve the whole problem in countries, it is even more certain that without economic survival and recovery, moderate governments cannot hope to hold the support of their people.

In many countries of the Basin, the majority in fact, where moderate, progressive pro-U.S. Government have been democratically elected with strong popular support, the leaders in these countries came to power expressly on platforms of bettering the living standards of their populations by encouraging private enterprise and developing stronger ties with the United States.

If the expected economic progress never materializes and, above all, if the hoped-for partnership with the United States fails to produce positive economic results, support for leaders advocating this course will be hard to sustain.

The refugee influx is another problem which affects our country directly and which becomes more pronounced daily as people from the area continue to pour in. The day-to-day costs of providing for the displaced have become a burden that is straining the limits and capabilities of the communities forces to shoulder it.

As a resident of Miami, it is clear to me that the economic and political future of the region will have a direct negative impact on our lives in Florida unless a way is found to halt this inflow. Addressing the economic plight that is forcing these people from their homes is essential.

The measures being proposed as part of the CBI represent a very modest investment, one we scarcely could afford not to take. We are talking about a package of aid for 24 countries that in all of its elements amounts to $1 billion for the year. This comes at a time when the Soviet Union is said to be pumping close to $3.5 billion into Cuba.

The supplemental appropriation in this CBI of $350 million is less than the $368 million that the State of Florida has spent since the spring of 1980 to care for the refugees that have already come to our shores.

In light of these considerations, I would strongly recommend that this legislation should be in the direction of more assistance rather than less. I believe the package could be strengthened without adding to the required funding through the consideration of providing tax incentives on new investment.

The Council of the Americas undertook a study on this question and concluded that while the tax credit for investment as proposed by the administration will be a useful tool for attracting additional investment, the approach known as targeted tax sparing could yield an even more positive impact. Details regarding targeted tax sparing are provided in my written testimony.

In summary, building the basis for the Caribbean Basin's healthy economic and political development and friendly relationship with the United States will be a major long-term effort for which this Initiative is only the beginning. Making it work will take a concerted effort on the part of our Government, the cooperating donor countries, the governments of the region and, above all, the private entrepreneurs.

This legislation provides a framework in which we all can participate in an effective working partnership to address the urgent needs of the region.

Thank you.

[Mr. Monroe's prepared statement follows:]

PREPARED STATEMENT OF ARCHIE L. MONROE

Mr. Chairman, my name is Archie Monroe. I am the president of ESSO Inter-America, Inc., Exxon Corporation's regional affiliate reponsible for operations in Latin America and the Caribbean. We have conducted business operations for over 50 years in the region, and are currently represented in 17 of the 24 countries under consideration in the Caribbean Basin Initiative. Our regional office is located in Coral Gables, Fla.

However, my testimony here today is on behalf of two nonprofit groups in which my company, and I personally, actively participate—the Council of the Americas and Caribbean/Central American Action—organizations which represent a substantial majority of private investments in that region. Both organizations welcome and support the President's Caribbean Basin Initiative.

Before commenting on specific elements of the CBI, I wish to share some general observations with you as a businessman and as a Florida resident.

My first observation is the fundamental, underlying realization that the stakes for the United States and its citizens in this effort are as real and as immediate as they are for the peoples of the Caribbean Basin region. High unemployment, high inflations, rising debt load and falling commodity prices have combined to create an environment of economic instability—indeed of desperation. Social and political unrest in many countries has followed in its wake. Realistically, economic recovery efforts alone cannot solve the whole problem in countries where unrest has resulted in political or even military confrontation. But it is even more certain that without economic survival and recovery, moderate governments cannot hope to hold the support of their populations. This is true not only where the forces of moderation are actively threatened by extremist pressures. It is also true in many countries of the basin—a major in fact—where moderate, progressive, pro-U.S. governments have been democratically elected with strong popular support. The leaders in these countries came to power expressly on platforms of bettering the living standards of their populations by encouraging private enterprise and developing stronger ties with the United States. If the expected economic progress never materializes, and—above all—if the hoped-for partnership with the United States fails to produce positive economic results, support for leaders advocating this course will be hard to sustain.

The refugee influx is another problem which affects our country directly and which becomes more pronounced daily as people from the area continue to pour in. The day-to-day costs of providing for the displaced have become a burden that is straining the limits and capabilities of the communities forced to shoulder it. As a resident of Miami it is clear to me that the economic and political future of the region will have a direct negative impact on our lives in Florida unless a way is found to halt the inflow. Addressing the economic plight that is forcing these people from their homes is essential.

The immigration problem, plus the enormous economic stake represented by existing U.S. trade and investment ties, add up to a crucial U.S. National interest in the economic health of the Caribbean.

Another observation in light of this crucial interest, is that the measures being proposed as part of the CBI represent a very modest investment—one we can scarcely afford not to take. We are talking about an aid package for 24 countries that in all its elements—existing appropriation levels, the proposed increase for fiscal year 1983, plus the proposed $350 million supplemental—amounts to a billion dollars for the year. This comes at a time when the Soviet Union is said to be pumping close to $3½ billion a year into Cuba. The supplemental appropriation of $350 million—designed to aid these countries from economic hardship—is less than $368 million in that the State of Florida has spent since the spring of 1980 to care for the refugees that have already come to our shores.

In light of these considerations, I would strongly recommend that this legislation should be in the direction of more assistance rather than less. It comes at a time when U.S. direct investment exposure in the region is over $5 billion, and U.S. exports to the region annually bring almost $7 billion into our economy. And, the trade and investment incentives in the CBI will open up new opportunities for U.S. firms and their employees as well as those in the region. The region's economy—and our own—will stand to gain further for example, by additional imputs to the supply of credit which these countries and their private sectors need so urgently; or, by additions to basic infrastructure that will enable them to attract the kind of investment required if they are to pay their own way over the long term.

One way I believe the package could be strengthened without adding to the required funding is in the consideration of the most effective means of providing tax incentives on new investment. The Council of the Americas undertook a study of this question, and concluded that while the tax credit for investment as proposed by the administration will be a useful tool for attracting additional investment, the approach known as "targeted tax sparing" could yield an even more positive impact. Under targeted tax sparing, the United States would not collect the tax "spared" by a Caribbean country when it extends a tax holiday in an effort to attract investment.

Almost all of our developed-country competitors provide tax sparing, and the less-developed countries have been requesting it for years. Lack of a similar program on the part of the U.S. Government makes our own private sector less competitive with other developed countries with operations in the region, and tends to undercut the objectives of the Caribbean countries in extending tax incentive to U.S. firms. This approach has the added advantage of offering to labor-intensive businesses a more meaningful incentive—the kind the Caribbean countries most want.

Whichever approach you ultimately choose to incorporate, the combination of tax incentives with the trade and aid provisions of the bill will make the Caribbean Basin Initiative a strong and innovative development package worthy of passage by this Congress and worthy of the strong expectations it has already raised in the region.

There are three elements of the Caribbean Basin legislative package which not only distinguish it from more traditional aid approaches, but which we believe will help it to succeed. I will mention how these three specific approaches are designed to contribute.

First, the plan will channel assistance directly into the private sector where it can produce results most quickly and in the areas of highest priority—job creation, export earnings, sustained economic growth for a high standard of living without deeper and deeper debt. In addition, the expanded long-term aid funds will be targeted either into the private sector directly—as in the case of business credit or programs for business leadership—or into the type of public sector projects—such as infrastructure or skills training—that directly complement the private sector by removing immediate impediments to investment and production.

Second, the CBI is directed primarily toward the harnessing of private sector resources, rather than direct aid from the U.S. Government. Traditionally, development of third world economics has been viewed as a task for public sector programs and funding. This package blends measures involving trade and investment enhancement with carefully targeted aid efforts, thus using a relatively modest amount of public funding to leverage a much broader array of private-sector resources. The 12-year one-way free trade treatment will expand U.S. markets for local private business and at the same time should attract new U.S. investors and joint-venture partners. This will bring technology, capital, managerial know-how and marketing contacts that will enable the Caribbean and Central American business communities to take better advantage of the new trade access. The second major CBI component, the ten percent investment tax credit, will further reinforce this process.

These measures, coupled with negotiation of bilateral investment treaties, expanded Export-Import Bank lending, and development of additional insurance facilities—can go a long way toward developing and improved investment climate in the Caribbean Basin.

A third important aspect of the plan involves a coordinated multi-country approach that includes Canada, Mexico and Venezuela. Thus the CBI will involve not only the leveraging of substantial U.S. private sector resources, but the broader array of resources that the four donor countries together represent. This creative mechanism will allow our Government to share the burden and maximize the combined impact while retaining full discretion to fashion specific U.S. programs.

By combining trade, aid and investment measures, by enlisting the cooperation of other countries, and by channeling both governmental and private sector resources in a way most likely to strengthen local private sectors, the administration's program strikes a positive balance between public and private sector development efforts. Both sectors have important roles to play in the development process. Under this flexible program, their joint impact can be maximized.

In summary, building the basis for their healthy economic and political development, and friendly relationship with the United States, will be a major long-term effort for which this initiative is only the beginning. Making it work will take a concerned effort on the part of our Government, the cooperating donor countries, the governments of the region, and above all by the private entrepreneurs who in the final analysis are most critical to the outcome. This legislation provides a framework in which we can all participate in an effective working partnership to address the urgent needs of the region.

Thank you.

The CHAIRMAN. Thank you very much indeed. Mr. Urban, would you proceed next?

STATEMENT OF STANLEY J. URBAN, JR., PRESIDENT, HAITIAN-AMERICAN CHAMBER OF COMMERCE, PORT-AU-PRINCE, HAITI

Mr. URBAN. Thank you, Mr. Chairman. Thank you for the opportunity to address this committee on this urgently vital issue, the Caribbean Basin Initiative. I have over 10 years of experience in Haiti, first as an electronic contract assembler and recently as a hotel and restaurant owner.

As the spokesman for the newly formed Committee of the Private Sector for Development in Haiti, which comprises five major organizations; namely, the Manufacturers' Association, the American Chamber of Commerce and Industry, the Haitian Chamber of Commerce, the Inter-American Businessmen's Association, and the Hotel and Tourist Association, it is with great pleasure that I have this opportunity to endorse and urge the approval of CBI's major initiatives of AID, free trade and investment initiatives.

The businessmen and industrialists in Haiti are convinced that with this initiative by the United States, the Haitian private sector can indeed become the engine for widespread economic and social development in the Western Hemisphere's poorest nation. But to do so, we will need reasonable levels of external assistance as well as new trade opportunities and market openings.

The form this assistance should take was well summarized in President Reagan's address to the OAS, a program of aid, trade, and private investment. I would like to emphasize today the urgent need for higher levels of concessionary foreign aid. It is important to keep in mind that Haiti, for well-known historic reasons, did not participate in the benefits of the Allianca de Progresso, or the Alliance for Progress.

There was no aid program there from 1963 to 1973. During those 10 critical years, existing infrastructure was left to decay and little new infrastructure, such as roads, schools, water systems, energy production was developed. Since 1973 the foreign donors have returned and a major development effort has been initiated, but much, much more is needed to make up for Haiti's lost time against the clock of economic progress.

However, I want to emphasize that nowhere will you find a more cooperative and well-coordinated community of private businessmen already moving toward national social and economic progress. Therefore, I would like to summarize and concentrate my remarks on how the private sector is mobilizing its efforts to solve some of the most compelling social and economic problems afflicting Haiti's populace.

The following voluntary self-help measures have been initiated over the past 2 years by the private sector to combat some of the development needs related to the CBI.

Exhibit A. "The Industrial Sector in Haiti: Situation, Prospects, Policies, and Recommendations" is an exhaustive $30,000 study by the Manufacturers' Association that has just received the Government of Haiti's approval to modernize labor legislation and to provide a better overall investment climate.

Exhibit B. The CBI supplemental aid proposal for Haiti, submitted by the Committee of the Private Sector for Development is another example of the development loans needed to finance 96 economically viable projects in the private sector. Included is an annual report by the Haitian Development Foundation where the private sector has already donated $125,000 since 1980 for small entrepreneurial enterprises with matching funds from USAID.

Exhibit C. Business Haiti magazine describing the Florida mission to Haiti is one of the most effective ways to provide Haiti with technical and promotional assistance from both the private and public sectors of Florida.

OPIC. The Haitian-American Chamber of Commerce and Industry obtained 26 Haitian projects for United States joint ventures to initiate an OPIC investment mission to Haiti in November 1981. OPIC is presently planning a followup mission to Haiti in the near future.

The amount of $500,000 has been collected by the Committee of the Private Sector for Development from private, foreign, and Haitian businessmen toward a goal of $1 million for the creation of a private development finance corporation followed by loans from major international lending institutions.

All of the above activities are proof of the private sector's commitment and organization to contribute to the overall development needs of Haiti as well as funding necessary for private sector investments in terms of development loans to a private development finance corporation for agricultural projects such as improving the production of rice, sisal, and bananas to provide food and foreign exchange and to create employment to stem the flow of refugees.

We would like to point out at this time that for this type of private sector oriented development strategy to work in Haiti, there must be parallel development investment by the public sector to establish and maintain the infrastructure essential for industrial and commercial growth. In Haiti, these needs are urgent. Particularly important will be public investments in alternative growth areas such as Les Cayes, Gonaives, and Cap Haiyien.

These small cities represent the logical centers for expanded agro-industrial activity. However, all are lacking in water supply, sewerage and draining, energy systems, resources for sites and services and for housing, public and private schools, health care facilities and other basic public services. Without these critical facilities, private investment will be constrained, if not impossible.

Therefore, we urge that the resources to be provided to Haiti under the Caribbean Basin Initiative include substantial increases in AID's funding to assist with these critical public sector investments.

To assure that increased levels of assistance are well managed and directed to Haiti's needs, the USAID mission should have full responsibility for the allocation and management of U.S. aid funds for this program. It should not only provide guidelines and conditions for aid, but also make the disbursements of these funds in line with U.S. development criteria.

As Jamaica's President Seaga said, "We are in a race with immediate development or raging discontent and we can pay for it now with immediate development or later with a costlier price of combating discontent." The private sector of Haiti joined the race only 2 years ago.

However, although its accomplishments are commendable, what we really need is access to capital resources for new investment along with concessionary aid for expanded infrastructure to support and encourage new private investment and access to new markets. In such a balanced program, free enterprise can, as President Reagan said, fight poverty in the Third World.

Thank you.

The CHAIRMAN. Thank you very much indeed, Mr. Urban. We certainly will want to come back to you with questions because we have had some controversial issues raised about Haiti.

I am pleased to welcome my colleagues, Senator Pressler and Senator Dodd, very much to these hearings. Our final witness on this panel is Mr. Charles Parry, president of the Aluminum Co. of America.

I know from talks over the years with your predecessors, sir, that your company has done business in the Caribbean longer than I am old. That is a long time back, so you bring a great deal of expertise to this. You have seen a lot of the turmoil down there in that part of the world and we are happy to hear from you.

STATEMENT OF CHARLES W. PARRY, PRESIDENT, ALUMINUM CO. OF AMERICA, PITTSBURGH, PA.

Mr. PARRY. Mr. Chairman, thank you and the members of the committee.

I am Charles W. Parry, president of the Aluminum Co. of America. I am grateful for the opportunity to appear today before this committee to explain why my company, Alcoa, strongly supports the President's program of promoting economic development in the Caribbean Basin.

Our first investment in a Caribbean country was made in Suriname in 1916. In the succeeding 66 years our involvement in the region has grown not only in Suriname, but also in Jamaica, Trinidad, the Dominican Republic, Mexico, and Venezuela.

We have lived through a turbulent era in which three of the four Caribbean countries where we operate have moved from colonial status to full-fledged but difficult independence. The fourth Caribbean nation, the Dominican Republic, has advanced through a period of dictatorship to a well-functioning democracy.

And Mexico and Venezuela, though still seeking sustained economic growth and social stability, have scored striking progress in recent decades and have consolidated their advance to such an extent that instead of being beneficiaries under the bill they are now able to join with the United States as cosponsors of concerted multilateral aid efforts in the basin as a whole.

From our long experience in this region we have seen what careful foreign investment and the resulting expansion of trade can do to improve living conditions and to convey a sense of hope. These factors are critical because such states as Jamaica are burdened with overpopulation and underdeveloped resources, especially in agriculture.

The traditions of former slavery and of colonial rule continue to handicap the new governments of the Caribbean Islands and the equally depressing weight of centuries of oligarchic and grossly unfair landholding arrangements in most of Central America has contributed to endemic political and social unrest.

We clearly see the need for modernizing efforts, whether these be additional infrastructure in Suriname, agricultural rehabilitation in the Dominican Republic, or the start of small industries in Jamaica.

Of course, Alcoa is only one company among many which are active in the area. However, for example, largely through the development of bauxite mining and the processing of this ore into alumina and aluminum we have participated in the emergence in Suriname of a moderately comfortable society with a per capita GNP approaching approximately $2,500 a year.

Our almost 6,000 employees there have opportunities for technical training, higher education, better health care, and safer working conditions, as well as material benefits. The standards that we seek to attain there have had their positive influence on the indigenous working community.

Our investments in five of the other basin nations have had a much more modest impact on the local economies, but again in each case we can see the beneficial effects on our workers and on their surroundings. We know that when multiplied by the inputs of many other investors from America and other countries the change can be dramatic.

Indeed, as I have already noted, Mexico and Venezuela are shining examples of the favorable results of a judicious mixture of domestic efforts and external investment to develop natural resources and to generate local enterpreneurial skills.

I have heard it said in these difficult economic times that the United States should be more concerned about employment at home than about the flow of American economic aid abroad. I agree that the national economy must be renewed and strong if the country's interests are to prosper. However, even this huge land cannot isolate itself as an island. Its future success will inevitably be bound up in the revival of all the major Western economies, with which America has enormous interdependence.

How much more evident are those links when the issue, as posed by this bill, concerns several dozen small neighbors to the south, whose populations total only about 37 million. These countries have been exporting their products and their people to the United States for decades. Our futures will continue to be closely intertwined. Will it not be much more sensible for this Nation to help them overcome the past by facilitating investment and more lucrative trade so as to create jobs which will tend to ease social tensions?

Alcoa has little or nothing to gain directly as a company from the President's initiative. Our basic investments in the basin area have long been in place and the bauxite and alumina which we import into the domestic market are duty free.

The CHAIRMAN. That is a very important point, by the way. Your objectivity here is very helpful.

Mr. PARRY. Thank you. I might add in the case of Alcoa it is Caribbean raw materials which enable us to run some of the company's domestic facilities which add fabricating and processing jobs which must be close to the U.S. marketplace.

However, as a corporate citizen, we feel strongly that this initiative is in the American national interest and can help stabilize our neighborhood. In decades gone by, political stability was enforced by European colonial regimes, by American military interventions, or by corrupt dictatorships. Such conditions are totally anachronistic in today's world, where people want dignity and development.

President Reagan's initiative to facilitate trade and investment and to accord additional economic aid, in conjunction with other governments and with multilateral financial institutions, seems to us to be the right way, almost the only way, to proceed in the 1980's.

Alcoa has no pretensions to expertise in the many detailed provisions of the proposed legislation. Yet we hope that the Congress will work out acceptable terms which will preserve the basic thrust of the Caribbean Basin Initiative to open new horizons for our neighbors, and thus create new hope, marching new aspirations, in a very troubled part of this hemisphere.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very, very much indeed. In order to move us right along this morning, why do we not adopt a 10-minute rule?

I would like to start with the poorest country in the area, Haiti, because in our earlier hearing we had a divergence of viewpoints. One said, why should we offer economic assistance and aid and development to a country with whose policies we disagree? What are we going to do about all of the Haitian refugees who are flooding our shores and who are now in detention camps?

I talked with the Reverend Jesse Jackson. We spent 4 hours together on the South Side of Chicago talking about this also. He has visited the camps five times. He has visited the Vice President and Elliot Abrams, our Assistant Secretary for Human Rights, because of them.

What relationship is there between being able to resolve and solve this influx of refugees coming in from Haiti, and creating better conditions in Haiti, so that the people who flee it are not political prisoners? Rather, they are fleeing from economic conditions which they consider oppressive. They are coming to the land of promise.

Mr. URBAN. That is correct, Mr. Chairman. As I stated in my testimony here, in my statement, the only way we feel that we can stem the flow of refugees is to provide the needed jobs in the rural areas, in the northwestern part of the country which at certain times of the year is a drought area.

It receives Public Law 480 food assistance. We have to get not only the local Haitian businessmen, but also foreign investors with venture capital to invest in that area. But as long as the infrastructure does not exist where the potential refugees are, it is going to be a long road.

We can get started on that road, however, by having medium- to long-term loans available for viable projects in agriculture, such as the Florida mission has explained, for example, through its technical assistance and promotional assistance for Haiti.

We are off to a start. We feel that we have already spent, in addition to the $30,000 for a study on the industrial sector, much more money, to the tune of almost $10,000, to learn how to increase the production of rice, sisal, and a few other agricultural products that can be grown in that area.

The CHAIRMAN. Thank you very much indeed. We will have a distinguished witness following this to express the concerns that were expressed to me in Peoria about jobs.

The day I arrived, Saturday, 3,000 people were notified that they were being laid off at Caterpillar. That is now 10,000 people out of a company employment of 65,000. Two other companies had closed the month before, and the week before—things that are of great concern there—and yet I did announce to the Chicago Association of Commerce and Industry, representing 12,000 business executives and 6,000 businesses, this situation and they pledged their total support, putting it as a high priority—the entire Chicago business community, the largest association, I think, in the world of any business organization locally.

They have pledged themselves to this because they think it is terribly important and they want to follow through. They have pledged $10 of investment for every $1 of aid that is offered. That is a pretty high ratio that they will be aiming toward.

My question to my two colleagues from business is this: First, do you think that plan could be and should be adopted and looked at by other associations of commerce? It is something that the U.S. Chamber of Commerce could pick up?

Second, in testimony that you have offered, Mr. Parry, you said in these difficult economic times some have said the United States should be more concerned about employment at home than about the flow of

American economic aid abroad. Taking into account that 80 percent of our raw materials in the next few years will come from abroad and that we are increasingly a have-not Nation and that our big markets for American productivity really lie abroad, with the 4.5 billion people who are outside our shores—our markets are maturing in many areas where those abroad are expanding at explosive rates—how do you answer those who say well, now, with unemployment here at home we simply cannot afford to go into something like this?

Mr. PARRY. Mr. Chairman, it is obvious to all of us that we must get the United States moving again and bring down the rate of unemployment. This is a national imperative. It is a little unfortunate that we are proposing this initiative at this time, if you will, because I think it tends to mask the long-term commitment nature of the initiative.

It starts with a 12-year commitment. It is a very basic commitment. It is a commitment which reinforces the interdependence of our Nation with the nations of the Caribbean Basin. I would welcome any kind of joining in, any kind of support, be it economic or verbal, to make sure that this bill, in an acceptable form, passes the Congress and gets underway.

It will be a long-term commitment of the United States.

The CHAIRMAN. Mr. Monroe, did you want to comment?

Mr. MONROE. As Mr. Parry and I have both been active in the Caribbean-Central American Organization, which is a private organization, we have been interested in this activity for 3 or 4 years now trying to get private enterprise moving.

We have developed a twin chamber program in that we have paired chambers of foreign countries with different U.S. chambers, with the specific purpose of trying to get the interest up. I think people will respond in one way or the other to try to get investment into this area to help stem the flow of the emigration and also to help promote trade from this country to that area.

The CHAIRMAN. I have one last question and then would like to tell you of a personal situation that I faced 2 weeks ago which was terribly exciting to me. It was a real demonstration of how important young people think this is.

I would like to ask this question: Because the CBI is the first major initiative since the Alliance for Progress in the early 1960's, there are arguments that this is, well, just a defensive reaction to Cuba, that it only focuses on short-term political and economic payoffs.

In your judgment, is this just a quick response to that? Are there payoffs in the short term, or do you see the payoffs really more in the long term? What it offers to me is hope for the future. I think it is one of the most exciting things because it is not a quick, easy bandaid solution. It is basic and fundamental, but it is long-term and therefore offers the hope even for the people of El Salvador to stabilize their society and attract this investment.

Otherwise, they are never going to get it. You have to have the initiative like Jamaica to stabilize your society.

Mr. MONROE. I think the Caribbean Basin Initiative is definitely a long-term solution. It is no quick solution. We are trying to create economies in these countries which provide jobs, which provide a basis for stabilizing governments, and long-term employment. That solves a whole raft of problems. The initiative goes for 12 years and includes trade provisions and is directed toward the long term.

That is what we need. I think that is what it is directed toward. I, myself, do not see it as a short-term package.

Mr. PARRY. I agree completely with that, Mr. Chairman. I think one of the most interesting, encouraging and excellent things about this bill and the way it is being put together is that it really encourages the development of the private sector within these countries. It is not simply throwing an awful lot of money after a social problem, be it international or domestic.

It tends to rely upon the initiative of the countries involved, by giving them this little push and this little help where it is so badly needed in their present stages of development.

The CHAIRMAN. Thank you. Mr. Urban.

Mr. URBAN. Mr. Chairman, unlike my colleagues I am in the thick of things. I am in the private sector right now in Haiti and I could not agree more with what you just said.

In addition, being in the private sector we are already gearing up for the CBI in what is known in Haiti as a sort of unprecedented and unparalleled movement. Of course, we think we are picking up the ball where others have dropped it.

In my statement I have given, therefore, concrete examples of what we have done already. Thank you.

The CHAIRMAN. Thank you. The personal anecdote that I want to add, just between us as fellow fathers, I have watched each of my children with great interest and helped them develop their careers.

My daughter Sharon has a very interesting one in West Virginia. My son founded a research business in Seattle, Wash.—my older son. My daughter is a medical anthropologist getting her Ph. D. and is living in Tunisia with her husband now.

My youngest son 2 weeks ago came to Washington to tell me, after graduating from Stanford and working for the Stanford Research Institute for 2 years as an energy expert on off-shore oil drilling, that he has suddenly decided to change the focus of his Yale double masters that he is getting in foreign relations and in business management and organization.

He has decided to change his entire focus to Latin America. He is switching from 5 years of French to start Spanish. He said, "Dad, I want to tell you something. If we cannot do right in our own hemisphere we have no business trying to help all over the world. I am going to put my life into this hemisphere, trying to find some way to do it."

Now that is the same decision that Chris Dodd made. Senator Dodd has lived in Latin America and speaks fluent Spanish. He has decided that that is a very important area of the world. In another area, I was never more proud than when the Chicago Association of Commerce and Industry came down and presented to me their plan for devoting themselves to this area.

I think that the testimony that you gentlemen have given us is extraordinarily important to emphasize that the top executives in this country are really beginning to think that this is not a Marshall plan from the standpoint of aid. That was a big, huge aid program, but this is a small part of that.

When you put into perspective how little $350 million is, you will see, but what will follow through by way of investment and technology from the private sector, this is what has to be stimulated. I think you will inspire a lot of others to think twice about where they should be moving and where they should go in the national interest as well as their own interest.

Senator Dodd.

Senator Dodd. Thank you very much, Mr. Chairman.

I am delighted to hear about your son.

The Chairman. He is a constituent, by the way. He and his wife are going to Yale, and in fact in a week or two you will have three constituents instead of two.

Senator Dodd. Well, I hope there will be a Democrat and we will vote for him. [Laughter.]

The Chairman. If you bring the vote down to the 1-year-old, you will be in. [Laughter.]

Senator Dodd. Oh, Democrats have been known to do that. [Laughter.]

In Chicago. [Laughter.]

The Chairman. No, in Chicago you have permanent, into the afterlife, voting rights. We vote more dead than alive sometimes. [Laughter.]

Senator Dodd. Well, I am delighted to hear about your son's involvement. I think it is so important that bright people become involved in these issues.

Let me, if I can, briefly raise a couple of points with you this morning. I said the other day in the opening round of these hearings that I felt that the fundamental problem in the Caribbean Basin, in fact all of Latin America, was political, that in the first instance if economic development, however you wish to achieve it, is to be successful, there must be the political climate existing in the respective nations of that region of the world in order for your economic assistance program, be it through aid, trade or investment, to succeed.

Do any of the three of you disagree with that fundamental statement?

Mr. Parry. Senator, I do not disagree with it. I would add that it is almost a chicken-and-egg proposition, however; which comes first? Political stability goes hand in hand with economic stability, it seems to me.

Senator Dodd. But you have to have the political framework, the infrastructure, in order to have your economic development.

Mr. Parry. Yes.

Senator Dodd. We have had examples where there has been significant investment in countries where you have lacked political stability, so you can achieve economic investment in a country to the tune of millions of dollars and still incur the kind of political unrest that we have seen. We have seen example after example of that in this region of the world, correct?

Mr. Parry. Right.

Senator Dodd. Mr. Urban, do you disagree with that fundamental statement that I just made?

Mr. **Urban**. Only because Haiti, I think, is so different that it is African, it is not Latin. I think if you look at the history, the culture, and the tradition of how Haiti has evolved, it has always been a friend and ally of the United States.

It participated in the Battle of the Savannah. The marines, of course, have also occupied the country for 19 years, from 1919, I think, until 1934.

One must realize that Haiti is special in that regard. So although it may have a dictatorship type of government, yet it does have democratic principles which went into that government.

Senator **Dodd**. In other words, you are not distinguishing Haiti from the fundamental notion that I just made, that you have to guarantee the kind of infrastructure and political stability in order for economic development to work?

Mr. **Urban**. I agree with that, Senator. But if we were to say that if a country does not have a democracy, then perhaps I would have to make an exception.

Senator **Dodd**. Well, I do not believe I used the word democracy. I said that you have to have fundamental political stability and that you do have problems with infrastructures and so forth.

Mr. **Urban**. That is correct.

Senator **Dodd**. The reason I raise that is I happen to believe the private sector involvement is absolutely essential for a sound economic development program.

Having said that, let me say something else, with which I suspect you may disagree. I do not necessarily believe that it is the priority of the business community to be in the business of economic development. Having said the former, they do not necessarily contradict each other. You cannot have economic development without private sector involvement, but economic development is not the business of business.

The business of business is to get a return on your investment, whether it is in Latin America or anywhere else, to satisfy the needs of your shareholders or the individuals who are investing in that particular enterprise. It is not economic development.

Do you disagree with that?

Mr. **Urban**. I think what we are doing in Haiti, though, is we are trying to get involved not only in politics—first of all, in politics, as far as the economic development of the country is concerned, to a large extent, Senator, I think we are involved——

Senator **Dodd**. Well now, you are a businessman. You are a businessman in Haiti. You are down there to make a buck.

Mr. **Urban**. That's correct.

Senator **Dodd**. That's good.

Mr. Monroe, you are not down there because you want to improve the economic development of Latin America only. You want to get a return on your investment.

Mr. **Monroe**. We want to get a return. But we also want to participate in the development.

Senator **Dodd**. But the primary purpose is to make a buck.

Mr. **Urban**. Sir, I would like to take exception.

Senator **Dodd**. Are you down there for some other reason?

Mr. URBAN. We realize that in making that buck, Senator, that if we do not start addressing some of the social needs of the country we may not be able to continue making that buck. So we are investing in the future of that country.

Senator DODD. But the primary purpose to be there is to get a return on your investment.

Mr. URBAN. Essentially, yes, when you first go down there.

Senator DODD. That brings me to my third point. I would like for any of you to cite an example for me where business—and I am not just talking about American business; I am talking about international businesspeople and domestic businesspeople—has really been the engine of economic or political change in these countries, which several of you in your testimony so accurately point out—and I commend you for it—and describes very clearly in terms of the kind of conditions that have existed for all too many decades in this part of the world.

Where do you get business deviating from the status quo? Traditionally, it has been the role of business to sort of stay out of politics, to exist in the environment that exists. It is not in the interest of business to necessarily disrupt the status quo. That invariably brings on additional difficulties and troubles that business does not need to have.

My concern is this. In terms of trade and investment—and I generally support this initiative. I think it is clearly a step in the right direction and that we ought to be proceeding with it. If we are going to assume that private business, be it American business or domestic businesses and industries, are going in any way to disrupt the status quo—if you agree that political change is necessary as well as economic development in order to achieve the stability that we must have in this region, then my concern is based on prior historical experience.

How can we really expect the private sector, which is not in that business, which is not in the business of economic development as such, to really make a substantial change in the fundamental problems that affect the basin?

Mr. PARRY. Senator, I would like to comment on that if I could. You are absolutely correct. First, we are not in the business of changing political regimes, obviously not. In fact, that is a no-no.

Second, our primary objective is not to bring economic aid as an end in itself to the countries within which we operate.

But it goes without saying that the ability to continue a viable business enterprise inside a country is enhanced if in fact the economic health of that country is good. It is much easier to operate inside a country which has a diverse economy, one in which the country is growing economically.

And I would suggest to you also that a healthy, growing economic climate or society is not as susceptible to those ideologies which we as a nation prefer not see in the countries in which we are operating. That is a corporate intention, not a corporate objective. It certainly is a corporate wish, if you will.

Senator DODD. My time has expired. Mr. Chairman. Thank you.

The CHAIRMAN. We have an unusually large crowd here this morning and a lot of people are standing. We do not ordinarily do this, but there are some seats down here at the press table to my left. I am sure they would not mind your sitting there.

Why do you not each take three seats at the end here and three seats at the end here, because this is a long hearing. If you are here and plan to wait for 2 hours and your interest is high, I would like you to be as comfortable as possible.

Is there anyone sitting next to a seat in the audience that is empty? If so, please raise your hands. I do not think other press people will be coming. If you would not mind having some of our guests sit down there, I think that will ease the congestion and people will be more comfortable.

We would also be happy to have a few of you come up over here to sit with us.

Senator Pressler?

Senator **Pressler.** Thank you, Mr. Chairman.

First of all, I think this is a very important review potentially, because so often we get into these situations and afterward it turns out differently than we thought in terms of our foreign assistance efforts.

The point has been made that there is a capital flight from many of these countries, that local investors are not investing in their own countries, that indeed, American investors are supposed to invest at the same time some of the prominent local potential investors are not investing.

Will the trade provisions of the CBI help stimulate more investment from local sources? Perhaps this subject was covered. I don't know. I had to leave the room. Has the potential for getting more local investors in some of their own countries, the problems of capital flight, been touched upon?

Mr. **Monroe.** I will address that, Senator. As the political climate deteriorates in various countries, whether you are talking about our initiatives or those of other countries in the hemisphere, you will have an immense capital flight from that country. As things then become stable, if they do stabilize, you will see the return of that capital to those countries.

You not only have a flight of capital as a serious problem, but another problem is the flight of management, managerial, and technical people. You have the flight of those types of people, such as we had in Jamaica during the earlier years. Now that the regime is there and it looks like it has been stabilized, you are seeing both the return of local capital and the return of managerial and professional people.

So you have all of that working. I think you will see some stability through the aid programs and the CBI. If there is the stability, you will see a return of local capital and other capital from Europe and the industrialized world.

Senator **Pressler.** Do you mean if the United States invests first, then there will be a return of local capital and local managerial talent?

Mr. **Monroe.** Well, no, I do not think so. I think you have seen the return of local capital in Jamaica from the beginning of Mr. Seaga's election. They did not wait for U.S. capital to come first. It sort of goes together sometimes.

Senator **Pressler.** In the case of Jamaica, is that a real thing or is that an artificial thing? I know that Jamaica underwent a period of hostility toward foreign investment. Now it has changed that attitude. Is that more than cosmetic? Is that really happening?

Mr. **Monroe.** I think it is really happening.

Mr. **Parry**. Very much so, Senator.

Senator **Pressler**. If you had determined to make an overseas investment, what factors would lead you to choose a site in the Caribbean Basin as opposed to places such as Hong Kong, Taiwan, and Korea, where I am told the return is frequently better and more reliable, and where your stockholders have a greater confidence?

Mr. **Parry**. Well, there obviously are different criteria for different industries, depending upon the nature of the processes involved. In my own case, we are in the Caribbean because raw materials exist in the Caribbean which we use in further processing and ultimate processing into aluminum. I believe that there are other mineralizations in this basin that are interesting to basic material industries.

Whether the kinds of industries which tend to flow to Taiwan, Korea, and Hong Kong would fall into the category of those which would be interesting because of the initiative, I am simply not familiar enough with them to answer that question.

Senator **Pressler**. What is the fiduciary duty of a director in this day and age if the company is going to make an investment overseas? How do you protect yourself from a charge that it was irresponsible or poorly informed?

I know that serving on the board of directors of a corporation has had all the fun go out of it, so to speak, from the old days. But I have noticed that a lot of consulting services have sprung up in Washington which allegedly give inside information on what is going on politically and economically in a country.

I wonder if it is not because boards of directors like to have something in their files that says that some good consulting firm said that this would be a good investment, to protect the officers of a corporation in terms of their fiduciary duty to stockholders.

Is this something that, in the new development of corporate responsibility, that you have to be very careful about?

Mr. **Parry**. Comparable to a doctor's ordering all sorts of tests in order to limit liability? I do not really believe so, Senator. I think the same carefulness, if you will, in making the investments is evident today as it has been 20 years ago, before some of this instability developed. I do not think that is much of a motivating influence.

Mr. **Monroe**. I agree with that.

Senator **Pressler**. Thank you.

My final point I guess goes back to my first one. I think our taxpayers, U.S. taxpayers, are willing to help out if we are sure that the wealthy people and the leadership in those countries are doing their share, and if we are sure that sacrifices are being made in those countries for the development in those countries.

There is a feeling that in the countries mentioned there has not been that kind of local leadership or local sacrifice or local contribution given consistently. I know that that is a sweeping statement, but there is that feeling in fairly well-informed sources.

I do not know what we can do in Congress to make it plain that we expect a redoubled local effort. This does not just mean verbiage. It means local investment, local leadership slowing down the flight of capital, of managerial talent, of technical talent.

Those are some things that the leading families in those conutries are going to have to think about, and the leading businesses and the leading business people, because our taxpayers have the impression in many instances that they are asked to do more than are some leading families and financial people in some of these countries. That, very frankly, is the way it comes across. I wanted to make that point.

Do you have any comments?

Mr. **Parry**. I heartily agree with that. I think one of the problems in a developing nation is to develop a critical mass, if you will, of industrial development that makes it attractive to local capital to reinvest. A good example of it is Brazil, which has now developed a capital market, a local capital market for investment. It is a very healthy one and a very lucrative one, as a matter of fact, for the local investors.

I think we could look forward to seeing that in a number of the countries involved here today.

Mr. **Monroe**. I would like to add to that point that a couple of the organizations working specifically in the Caribbean Basin area, the Caribbean Central American action group, of which I am a trustee, and the commission of businessmen appointed by the President and headed by David Rockefeller, has a joint group with Jamaican businessmen, and we have businessmen from the whole area, including Trinidad and Jamaica, to serve on these committees with us.

They are well aware of the fact that they have to put up their capital also and be out front and lead and attract investment, whether it be United States, foreign, Canadian, or European. Businessmen in this area are well aware of this point and are working to make sure that they put up their effort first.

Senator **Pressler**. I hope that is true. I find that anything that has the words "foreign aid" tied to it, or even trade concessions or agreements, is increasingly resisted by our taxpayers. This is not an isolationist speaking here. It is getting harder and harder and harder to vote for foreign aid or for what appears to be foreign aid.

I know this is supposed to yield returns, but in our trade agreements, in the example of the Japanese, we have made so many concessions there over the years, and our people have the impression, rightly or wrongly, that we have to address some problems here at home first. So it is getting tougher and tougher to get these kinds of programs through.

That is why this hearing is very important. Anything you can give me to take back to tell my taxpayers about how this is going to help them, I would appreciate very much.

Thank you, Mr. Chairman.

The **Chairman**. Thank you very much, indeed, Senator Pressler.

Mr. Parry, if you were addressing 3,000 executives at the U.S. Chamber of Commerce and the subject was investment potential in the Caribbean Basin, what would you tell them that you see as the major attractions of the Caribbean Basin countries for U.S. private investors, taking into account that they are not philanthropists or humanitarians and they are not the State Department. They are businessmen, responsible to their boards of directors and stockholders for a return on investment.

Mr. PARRY. I think the first thing that you would have to emphasize is what you just said, that there are good opportunities, that there are good markets, that there are good places to operate in and to ship to. It is necessary to build these economies so that they then develop their own markets, which will attract—not only their ability to produce these goods, but they will develop societies which are consumer societies and which will need many of the goods which the U.S. exports.

This is not a do-good attitude on the part of such companies as are represented here. It is an attempt to develop healthy economic sectors of the world, one which is a very close nature and incidentally has a number of geopolitical overtones.

The CHAIRMAN. Mr. Monroe, I found in my business career, when I headed the international activities of Bell & Howell Co., many third world countries and some developed countries as a matter of fact—Japan years ago was in that category—preferred to engage international capital and technology through promotion of joint ventures, where they would get a piece of the action but they would not be taking all of the risk, either.

Many U.S. firms have found the joint venture relationship an uneasy one. My own experience with it has been both good and bad.

Do you see much attraction for joint ventures in the Caribbean Basin countries?

Mr. MONROE. It varies from location to location. In certain of the countries you can bring a certain amount of capital and also some knowledge of the country and how to operate in that country that would be helpful by having joint ventures. Sometimes that is the only way politically that you are allowed to operate, that is to have joint ventures, and if you want a part of the action you have a joint venture.

Our experience has been similar to yours. Some of them have been very successful and some of them have been pretty lousy. That is the risk that you take when you make those decisions.

The CHAIRMAN. The reason we are going back and forth, in and out of the room, is we have a vote now on the momentous decision as to whether we should instruct the Sergeant at Arms to order all Senators to the floor. We will all vote "yes" and then immediately leave the floor and come back here, in accordance with Senate procedure, considering that hearings in this time of the morning are the only time that we have a chance to do these things.

Mr. Urban, what are the major impediments as you see them, not just in Haiti, but throughout the Caribbean area, an area that you know so well, to increased investments? Which of these can be addressed by U.S. Government assistance, coupled with Mexico, Venezuela, and other partners, such as Colombia in that area? And which are stricter issues which must be dealt with by local governments?

Certainly that is a tough question. You can answer it briefly if you wish, and then we can leave the record open on that and on all other questions for you to expand on. We will keep the record open for the next 10 days.

Mr. URBAN. Mr. Chairman, the first part of your question was regarding the impediments?

The **Chairman**. That is right, the principal impediments. What is stopping boards of directors from meeting today? Here is the President announcing a Caribbean Basin Initiative, asking for participation of American business. What stops them from saying, no, we had better not do that; it may be in the national interest, but it is not in the interest of our stockholders? And why not, and what can we do to help?

Mr. **Urban**. Well, I think the first is the political question, the question of political stability. Particularly in Haiti's case, it always has been a problem. People feel that 25 years of political stability in Haiti under first the father and then the son's regime is a pretty good record. However, they come up with the argument. So? Somoza lasted for 40 years.

Of course, also the refugee problem does not help the image of Haiti. This is a hangover from the era of Francois Duvalier. He led the political revolution. Jean-Claude is leading the economic revolution and is doing a good job, we think.

I think the image, of course, is our No. 1 problem in Haiti. I am not qualified to speak about the other countries in the Caribbean.

The second part of your question, Mr. Chairman, I am sorry, I have forgotten.

The **Chairman**. It has often been said that if a country would just simply maintain a hospitable climate toward investment, you really would not need a lot of foreign assistance. The domestic capital formation and foreign capital investment, would really meet its needs.

How does a country such as Jamaica, for instance, which as we know, underwent a period of great hostility toward foreign investment in the previous government, build a track record to show that its policy has changed, so that private investors are willing to show a track record with someone else's investment?

Is there a way the U.S. Government can be helpful in such circumstances? And I'd ask any of you to do that. I want to say Jamaica was the first country, as you know, that the President invited to the United States. The Prime Minister came here. I hope we will send an absolutely outstanding businessman as well as diplomat down there to help them in every conceivable way.

It is a showcase, along with Puerto Rico, which is a continued showcase for us. Everything seems right now to reverse a terrible trend into a good one showing stability and that decency and democracy can really cause the people of that nation to prosper and grow and share in that prosperity.

Does anyone want to comment on that?

Mr. **Parry**. I suppose, Mr. Chairman, that they will renew or rebuild that confidence with great difficulty. Prime Minister Seaga is working extremely hard to convince the world that he, in fact, is building an economic society in Jamaica which is amenable to private sector investment. I think he has gone a long way to reassure how we reacted to his predecessor and his predecessor's approaches toward both political and economic development.

I think it's difficult for this to happen, but I think that most of these nations in the basin are doing just that, working hard at it.

The CHAIRMAN. Your own company feels more comfortable today expanding in Jamaica than it did before, does it?

Mr. PARRY. Absolutely.

The CHAIRMAN. You are putting your dollars to work there because that degree of stability for the future appears to insure your investments?

Mr. PARRY. Yes.

The CHAIRMAN. Thank you.

Mr. Monroe?

Mr. MONROE. I was going to add that Barbados has had a stable government and economic climate for many years now, and it has had laws that have been evenhanded toward private business. They have encouraged business there and they have had economic development, where many of their neighboring islands have not had.

It is primarily due to the stability of the government and the evenhandedness with which they have treated people there. This has encouraged investors to go there with their money and it has created jobs.

The CHAIRMAN. Thank you.

Mr. Urban?

Mr. URBAN. Mr. Chairman, of course, we in Haiti in the private sector look at Jamaica with envy as the showcase for democracy in the free world. However, we do feel that in Haiti we are making progress toward Haiti being the showcase for President Reagan's plea for free enterprise to battle poverty.

Senator Dodd's remarks caught me by surprise, since he was the first one at our luncheon meeting to endorse our activities and to tell us to get out there and to do the job.

The CHAIRMAN. I thank you very much.

I had hoped my colleagues would return by now. I know that Senator Dodd has another question or two. I will have to get down to the floor for the vote or I will miss it. So we will take a very brief recess, for about 2 or 3 minutes, until Senator Dodd comes back in.

Thank you.

[Recess.]

Senator DODD [presiding]. The committee will come to order.

I just have a few more questions. I had to leave to cast my vote. So if I repeat a question covered by Senator Percy or Senator Pressler, please feel free to let me know right away, rather than letting me be repetitive.

The point that I was trying to make in my earlier comments and questions to you is about the fundamental problems that we have to deal with in Latin America and how we address them. I do not want to leave you with the impression that I misunderstand or do not appreciate fully the absolute necessity for the involvement of the private sector in economic development. I think that goes without saying.

My concern is in a sense that this package, this trade-aid-investment, because two of the three legs are directly dependent on the private sector, the trade and investment side of it, I am concerned that we are passing the buck, in a sense, to you, our responsibility to the private sector for the success or failure of this particular initiative; that if the private sector does not invest, if we do not have the kind of industries down there that can produce products for export, it seems like an awful lot of the success or failure of this program is going to depend upon the private sector.

My concern is that you are being asked to assume a tremendous burden in terms of the success of this particular initiative. I thought I have always had a very realistic viewpoint of the role that business can play in economic development. But I never felt it was fair to assume that the business community was going to take the lead necessarily in some of these areas.

That is my concern with this, really. I say that, having said already that I support the overall thrust of it, because I think we have to do something in this area and we have to iron it out as it goes along to make sure that it works.

We are allocating in this program $128 million, of the $450 million, for El Salvador. As we are all well aware, there was a tremendous turnout in Sunday's election in that country, far beyond anyone's wildest expectation in terms of voter participation.

I would like to ask you, as people who have observed the area, even though your direct involvement in El Salvador may be small, this question. Perhaps I ought to address this particularly to Mr. Monroe and Mr. Parry, since Mr. Urban's particular expertise has been in Haiti.

Is it your impression from conversations and information that you may have gathered from other places that the agrarian and economic reforms in El Salvador were needed, that that was an essential element or ingredient toward achieving political stability in that country?

Mr. MONROE. I am not that familiar to say that agrarian reform is specifically needed for political stability. It has been widely talked of as an integral part of the settlement there to achieve political stability. It has been a point that our State Department has made as something that we need.

Senator DODD. Do you agree with it?

Mr. MONROE. I think there is probably a need for some agrarian reform in the country, yes, sir.

Senator DODD. What about economic reform?

Mr. MONROE. They were fairly proprivate enterprise there.

Senator DODD. Well, I know that.

Mr. MONROE. Businesses were able to operate reasonably well in the country.

Senator DODD. Well, what about the nationalization of the banks in particular? That was one of the elements. Do you think that was a needed change in the economy of the country?

Mr. MONROE. As a businessman, no, I did not think they needed to nationalize the banks.

Senator DODD. What about for the country?

Mr. MONROE. For the country?

Senator DODD. Yes.

Mr. MONROE. I am not sure that I understand the question.

Senator DODD. Well, this whole program, the Caribbean Basin Initiative, is about the economic development in the region and the countries affected. Nationalizing banks is one of the elements in that particular country. There it was the conclusion of many that that was a needed reform in order to improve the political and economic stability of El Salvador.

Mr. **Monroe**. In my dealings throughout the region in South America, I have not seen where nationalization of the banks added to improving the political situation.

Senator **Dodd**. Well, let us limit it to agrarian reform, then. It is your conclusion that that makes some sense?

Mr. **Monroe**. I think that that probably makes some sense.

Senator **Dodd**. Do you agree?

Mr. **Parry**. Absolutely.

Senator **Dodd**. Well, you know, the private sector in the country is totally opposed to that.

Mr. **Parry**. They may well be, but I think they are wrong.

Senator **Dodd**. Well, that is kind of the point that I am trying to make, in a sense. If you have the private sector, the business community, totally opposed to a needed political reform, an economic reform, and if we are talking about economic stability and being able to thwart the expansionist inclinations of Castro or Moscow, it seems to me we have to be in sync on these things. And to the extent that the private sector is willing to support the reforms, that very well may curtail some of their economic returns, it raises the whole question whether or not we are going to be able to achieve the kind of stability where you expect the private sector to take the lead. That is really my point.

Any comment on that?

Mr. **Parry**. Senator, I think that agrarian reform is necessary in many parts of the world, and certainly it is up in the forefront in Latin America, particularly in Central America and a number of the Caribbean countries. I believe there are special interest groups that we simply have to convince that the long-term development opportunities for their country demand that that be brought about as a social reform element.

Otherwise, the economic movements will simply not work in the long run, because there are developing middle classes and that has to be supported.

Senator **Dodd**. Would any of you invest in El Salvador right now?

Mr. **Monroe**. We have invested there right now.

Mr. **Parry**. I would not, sir.

Senator **Dodd**. Mr. Monroe?

Mr. **Monroe**. I would not invest at the moment, not until we see what the outcome is.

Senator **Dodd**. How about you, Mr. Urban?

Mr. **Urban**. No, Senator.

Senator **Dodd**. We are going to consider $128 million, about a third of this whole overall budget for the Caribbean Basin Initiative, for El Salvador. Do you think it might make more sense to try to get the political situation there resolved before we try to come on with a massive dose of economic assistance?

Mr. **Parry**. Well, first of all, I do not know what the $120 million is going to be specifically spent on.

Senator **Dodd**. I do not, either.

Mr. **Parry**. And I am not an expert on El Salvador, Senator. But I know that the kinds of things that are needed in the Caribbean Basin and in many of the developing nations are infrastructural in nature. There is the transportation system, the roads system, the various public works systems, that are necessary to provide a stable base for an industrial development.

They take time. They take long periods of time to develop. I am sure that an inherent assumption in the Caribbean Basin Initiative in general, and perhaps El Salvador specifically, is that that political stability will come about in the relatively near term and that the infrastructural investments will go along with that; as the one develops, the other will develop.

Senator **Dodd**. I do not really disagree with you on that. I guess my only problem is, if they are going to be the target in a civil war, that while that is absolutely essential, it is essential in terms of limited resources to get them around to where they can do the most good.

I would immediately come to the point of Haiti, where we are going to consider $5 million for Haiti, which by everyone's estimation is the poorest country in the hemisphere. While I certainly have had my difficulties with and have not been silent in my criticisms of the Duvalier government, I happen to think that the present President of that country is light years ahead in terms of an improvement over his father in that nation, and that the recent changes—the Finance Minister, the Foreign Minister, the Minister of Mines—in Haiti is a significant improvement there.

Five million dollars is just not going to do anything in that country at all. There is not now a war raging on in Haiti. In terms of the distribution of limited resources where it might do some good, where we might encourage some continued change—by the way, while I applaud these changes in Haiti there is still a lot of room for improvement in the political climate of that country—it seems to me we ought to encourage that kind of activity.

And putting $128 million of economic assistance in El Salvador at the time a war is going on, in terms of those dollars actually achieving the kind of results economically that we would like them to, creates problems for me, just in terms of how we use those dollars in the various countries under the circumstances in which they are presently trying to operate.

Mr. **Monroe**. I am not in a position to comment on the specific dollar amounts to each country, but I think the total amount is not a very large amount. In fact, I think the State of Florida spent that much on total aid to refugees recently. So that is not a large sum of money.

We need something to get started in the region on a total basis. Whether you would allocate it differently is another question.

Senator **Dodd**. Mr. Monroe, I have one other question. I believe you spoke of spared taxation.

Mr. **Monroe**. Yes, sir.

Senator **Dodd**. That is an intriguing idea. With what would you counterbalance that? I can see an awful lot of runaway shop problems with that, where you do not have to pay any taxes, if in fact the local government does not charge any taxes and e spare them that taxation and do not offset it, obviously, by what they are not being charged in the particular country they are in.

How do you hedge against that runaway operation where there is not an EPA, there is not an OSHA, there is not a lot of other agencies of government which business complains about, that increase their costs of operation?

What about labor costs? What is the annual per capita income in Haiti?

Mr. URBAN. It is difficult to tell.

Senator DODD. Is it about $120 a year?

Mr. URBAN. No, it is more than that, Senator. It would be a little over $200. This is difficult. This is a country that has a population of approximately 6 million, and it is hard to take a census.

The hourly wage, Senator—we do not go by the hourly wage. We go by the daily wage, which is $2.64 a day.

Senator DODD. $2.64 a day. There have to be some businesses that would love that opportunity and would avoid paying taxes. I suspect it would be an awfully attractive risk. How would you offset that?

Mr. URBAN. Well, it is not so attractive, because you have to add at least 25 percent of that for fringe benefits.

Senator DODD. Oh, there is a fringe benefit problem down there, huh? [Laughter.]

I was going to let you go, but I am going to come back to you.

Mr. MONROE. I will step aside and let you finish. [Laughter.]

As you said, you could target the taxpayer and the administration could direct it to specific countries that need aid, and it could be for a limited time period, so that you have control and make sure it does not run away. On the other side, the countries have to have some tax exemptions in order for the companies to benefit. These are normally of some limited duration, such as 5 or 10 years. So you have control from both sides of that aspect of it, that you could control it.

But it would probably encourage investment and would not be out of pocket costs to the Treasury, to that effect.

Senator DODD. When you are making a decision on where to locate and where to invest in these countries, can you just kind of run down for me, the principal criteria you take into consideration in making such a decision.

Let us use these countries of the Caribbean Basin particularly. What do you look for? What is your first consideration, what is your second, and your third, if you can prioritize them for us?

Mr. MONROE. Well, the first in our industry is looking for natural resources and where they are. Unfortunately, the Caribbean Basin, other than a few of the countries, is not endowed with great resources, particularly in the energy field. That is always the first criteria.

The second criteria is, does it have deep water ports, does it have easy access for transportation? Do you have the capability of long-term survival of the government? Is it reasonably stable?

We have operated in these countries, on the average, for 50 years throughout the regions, and we have gone through various forms of government and survived most of them. But you are looking for what unique advantages that may be there, in our case of people that are skilled or natural resources, and that type of criteria.

We are not into the manufacturing businesses and I do not have a lot of experience of how you locate a plant to assemble radios or TV's.

Senator **Dodd**. Mr. Parry, would you comment on that? What are your principal considerations in deciding whether or not to locate in one of these countries?

Mr. **Parry**. Ours are somewhat similar to Mr. Monroe's, because we too are a basic material industry. So we are looking for basic ores or processing opportunities. We look for a stable labor force. We look for stability in the political climate.

We look for encouragement from the Government. In other words, we want the Government to want us in there to further their ends, as well as our own. Our own are economic and theirs are economic development objectives

It is a very complex series of criteria, because it varies so much from industry to industry. I, like Mr. Monroe, have virtually no experience whatever with the assembly kinds of industries or the small shops, such as shirtmakers, things of that nature. I just do not know enough about it even to comment.

Senator **Dodd**. Let me wrap this up. I have to come back to you, Mr. Urban. Do you want to tell me about those fringe benefits? What did you say, 25 percent?

Mr. **Urban**. That is correct.

Senator **Dodd**. What do you pay fringes for? Who do you pay down there?

Mr. **Urban**. Well, workman's compensation and retirement. There is 1 percent that you have to pay for a Christmas bonus. In addition, you have to pay a 13-month bonus, and you have severance pay, et cetera. Those are what comprise the fringe benefits.

Senator **Dodd**. Do you have other fringe benefits that you are paying? Does it cost you politically down there to operate in Haiti?

Mr. **Urban**. I am sorry, Senator.

Senator **Dodd**. Do you have to pay people in Haiti to do business, people in government?

Mr. **Urban**. No, absolutely not.

Senator **Dodd**. Mr. Chairman, thank you.

The **Chairman** [presiding]. Thank you, Senator Dodd.

Senator Pell, do you have any questions?

Senator **Pell**. No, Mr. Chairman, I have no questions.

The **Chairman**. Thank you very much indeed, gentlemen. We will keep the record open for other members of the committee who may have questions of you. We deeply appreciate your being here. Thank you all very much, indeed.

Senator **Dodd**. Thank you all very much.

The **Chairman**. At this time our second panel will consist of one person, and he is Dr. Rudolph A. Oswald, director of the Department of Economic Research of the AFL–CIO. Dr. Oswald is very well known to this committee. We welcome him back here with pleasure.

Dr. Oswald has worked very closely with the Office of the U.S. Trade Representative on some very rough trade negotiations. We are pleased to have you with us today and are pleased to have your testimony, Dr. Oswald, at this time.

STATEMENT OF DR. RUDOLPH A. OSWALD, DIRECTOR, DEPARTMENT OF ECONOMIC RESEARCH, AFL–CIO, ACCOMPANIED BY STEPHEN KOPLAN, LEGISLATIVE REPRESENTATIVE, AFL–CIO

Mr. OSWALD. Thank you, Mr. Chairman.

Accompanying me this morning is Steve Koplan, legislative representative for the AFL–CIO.

I thank you for those kind remarks and ask that my total statement be made a part of the record. If I may highlight certain aspects of that testimony, I would like to do so.

Recently, the AFL–CIO executive council summarized its concerns dealing with this issue of the Caribbean Basin in the following way:

> Aid in the development of Caribbean nations needs to be enhanced, but proposals for one-way free trade and additional investment incentives to U.S. firms for investing abroad should be rejected.

The full statement is attached to my testimony, Mr. Chairman.

The AFL–CIO has long supported direct economic assistance, and we appear here today to support the supplemental appropriations for the Caribbean countries. We urge, however, that the $350 million sum provided in S. 2237 be carefully scrutinized to determine whether that amount is appropriate for fiscal year 1982 and to review the proposed allocation of those funds.

However, the AFL–CIO is strongly opposed to the trade and tax incentives contained in the bill. Those incentives will only serve to further weaken the U.S. industrial base by encouraging new runaways by U.S. industries to the Caribbean region, result in a quickening of lost U.S. jobs, both skilled as well as unskilled, and create windfall benefits for non-Caribbean countries from the Soviet Union to the Far East, who funnel goods to the United States through these Caribbean countries.

Specifically in the bill, I would like first to call attention to title I and section 102(b)(2), that part that has the requirements for a beneficiary country. All of the criteria in that section are designated to safeguard investments for those who may invest. None require that the workers in those countries share in the benefits of those investments.

We believe that a basic requirement for a country to participate in the Caribbean Basin program be that the workers in that country have the right to form unions and to bargain collectively concerning their wages and terms of employment. Without equal requirements for workers' rights, this legislation only protects the rights of those who invest money, not those who invest their work.

One of the basic elements of this proposal is the notion of one-way free trade. However, 87 percent of the products from that region already enter the United States duty-free under the General System of Preferences. But what is missing in this legislation is the sort of safeguards, which are very minimal, but at least exist in the General System of Preferences legislation.

That GSP legislation, for example, attempts to limit the damage of duty-free products by exempting some specific import-sensitive products, those products that are already harmed by imports, and it allows for the removal of other products. The GSP law also contains mechanisms to limit the dollar amount and the quantity of imports that receive the preference.

These protections do not exist in S. 2237. Furthermore, we are fearful that, because of the very low domestic content requirements in S. 2237, that the Caribbean Basin may become a funnel for products from other countries to enter into the United States duty-free by just meeting the 25-percent local content requirement in the new bill. Under GSP the requirement is for 35 percent, and if more than one country is combined the requirement is for 50-percent local content. We believe that those higher standards at least provide some better protection.

There are examples that have led to our concern. If I might just point to one, there has been an example in the Virgin Islands, where there has been an assembly of Soviet watches which were first disassembled and then reassembled in the Virgin Islands. They were then brought into the United States duty-free as a means of circumventing, in essence, a kind of local content standard.

The provisions of this current bill contain no effective safeguards for U.S. industries against injuries from imports. The bill empowers the President to designate any country as a beneficiary country if—and I quote from the bill—he "determines that such designation will be in the national economic or security interest of the United States and reports such determination to the Congress with his reasons therefor."

However, if injury is claimed by a U.S. industry it is no longer sufficient for the International Trade Commission to determine under section 201(b) of the Trade Act that an article is being imported into the United States in such increased quantities as to be a substantial cause of serious injury.

Now the bill imposes a new burden on the International Trade Commission: It must determine that the injury results from the duty-free treatment afforded under the Caribbean Basin Initiative. So while it may be a combination of factors, one would not get relief under the way this bill is put together.

Currently there is already a trade deficit that this country suffers currently of $40 billion with the world and over $3 billion with the Caribbean Basin countries specifically. During this period, the impact of GSP treatment has had a tremendous growth, climbing to some $8.4 billion from $3 billion just 6 years ago.

We are also concerned with the tax incentive provisions. They in essence will result in losses of dollars to the Treasury and we believe will move in exactly the opposite direction from those that we were told were the purposes of last year's tax bill, with its large tax benefits for corporations.

The top priority of last year's tax bill was to increase domestic investment and not foreign investment. The total tax incentives in the bill amounted to over $800 million, according to the current estimates, and they may very well be low. When coupled with the bill's so-called trade incentives, though, the real cost will be higher U.S. unemployment caused by the manipulation of these proposals by the shippers who funnel other imports through the Caribbean region into the United States.

The other problem, of course, is there is a fear of diminished U.S. investment in our own domestic industries, rather than just a net increase for everyone. We are fearful that the administration's tax and trade incentives, when balanced against the miseries of 9 percent unemployment in this country, should lead one to reject those proposals.

In a sense, while there are contributions from Mexico, Venezuela, and Canada, and cooperative actions, the U.S. contributions so far exceed those made by any of the other countries, and I think we need to reevaluate that interrelationship.

But we think that there is a more intelligent and meaningful way to address the very real problems of the Caribbean Basin than what is proposed in S. 2237. The AFL–CIO experience demonstrates that development must be based upon expanding the opportunities for the citizens of these countries, not by enhancing the benefits for multinational corporations. Internal market growth, with rising living standards, not trade diversions, should be the route to economic development.

These countries need help in developing the infrastructure that provides the real base for long-term improvements. It must involve improved education and training programs. In many countries, it must include land reform programs and better means of encouraging internal self-investment, rather than the continual exodus of capital to Miami banks. And certainly a central element of development must be the assurance that the workers and the people of the country become the chief beneficiaries of any development.

The AFL–CIO urges that the committee send the administration back to the drawing board to design a more thoughtful plan of assistance to that area, not a blueprint to further pauperize America. At the least, that plan should include recognition of the past effects of runaway industries in the Caribbean countries and the current plight of the U.S. economy.

Mr. Chairman, I would like to supplement my statement in terms of some of the issues that you raised earlier with some other documents that I think may further document our concerns. One is a letter to former Senator and now U.S. Trade Representative William Brock of January 19, concerning our desire for additional safeguards.

But there is one item in terms of the questioning that I would like to read into the record, and that is this:

> If investment support is denied dictatorships on the left, such as Cuba, Guyana and Grenada, then likewise dictatorships on the right, such as Haiti, Guatemala, et cetera, should be denied.

We believe, Senator, that it should be a development that helps people.

Second, in terms of some of the discussions of Haiti earlier today, I would like to put into the record an advertisement from the Women's Wear Daily of March 17, indicating that there is a factory for sale or lease in a Caribbean country, saying "lowest labor cost under $2.75 per day, 150 sewing machines."

I hardly think that it is our desire to encourage flight of operations from the United States into the Caribbean.

The CHAIRMAN. Those documents will be inserted into the record.

[Mr. Oswald's prepared statement and attachments follow:]

PREPARED STATEMENT OF DR. RUDOLPH A. OSWALD

The AFL–CIO appreciates this opportunity to present our views on the Reagan Administration's "Caribbean Basin Economic Recovery Act," S. 2237.

At its recent meeting, the AFL–CIO Executive Council made the following statement regarding the Administration's proposal: "aid in the development of Caribbean nations needs to be enhanced, but proposals for "one-way" free trade and additional investment incentives to U.S. firms for investing abroad should be rejected." (Full text of statement attached.)

AFL–CIO union members look upon those who live and work in the Caribbean Basin as their brothers and sisters—in many cases this is literally the relationship. In addition, thousands of U.S. union members live and work in Puerto Rico and U.S. possessions in the region. These workers know the problems of runaway factories from the mainland and among the islands. Wage exploitation and massive unemployment that can develop from mismanaged policies are not new to them. Neither the workers in the Caribbean nor the workers in the United States want programs that cost one another jobs and thus lead to more unemployment. Yet that is the fear raised by the Administration's trade and tax incentive proposals.

The AFL–CIO supports direct economic assistance in the form of a supplemental appropriation for the Caribbean countries desperately in need of help. We do urge, however, that the $350 million sum provided in S. 2237 be carefully scrutinized to determine whether that amount is appropriate for fiscal year 1982, and to review the proposed allocation of those funds.

However, the AFL–CIO is strongly opposed to the trade and tax incentives contained in the bill. Those incentives will only serve to further weaken the U.S. industrial base by encouraging new runaways by U.S. industries to the Caribbean region, result in a quickening of lost U.S. jobs—skilled as well as unskilled—and create windfall benefits for non-Caribbean countries from the Soviet Union to the Far East, who funnel goods to the United States through these Caribbean countries.

The bill in Title I sets forth various criteria that are required for a country to be designated a "beneficiary country." All the criteria are designated to safeguard investments for those who may invest—none require that the workers in those countries share in the benefits of such investment. We believe that a basic requirement for a country to participate in the Caribbean Basin program be that the workers in that country have the right to form unions and to bargain effectively concerning their wages and terms of employment. Without equal requirements for worker's rights, this legislation only protects the rights of those who invest money, not those who invest their work.

Title I of the bill lists 28 countries in the Caribbean Basin as potentially eligible "beneficiary countries" for so-called one-way free trade with the United States—zero tariffs for 12 years on U.S. imports from those designated countries. However, the Administration admits that at present about 87 percent of the products of those countries already enter the U.S. duty-free under the Generalized System of Preferences (GSP) for less developed countries. Its reason for blithely requesting absolute authority to "grant duty-free access for all Caribbean Basin imports with the exception of textiles and apparel covered by textile agreements" is mind-boggling. To quote Ambassador William Brock's statement before the Subcommittee on International Trade of the House Ways and Means Committee on March 17, it is because "there is uncertainty and fear in the Caribbean Basin about the future of the GSP program." On that same day, the General Counsel for the Office of the United States Trade Representative, Donald de Kieffer, testified in the Senate Appropriations Subcommittee on Foreign Operations that "many potential Caribbean exports have never been included in this scheme [GSP]. Other products have been eliminated from eligibility through the GSP petition process or by the competitive need limitations." For those reasons, according to Mr. de Kieffer, the trade provisions of the Caribbean Basin Initiative were crafted.

Mr. Chairman, why does the Administration choose to abolish the modest existing Congressional limitations for GSP benefits? Why does it instead expand those benefits massively beyond the 2,900 imported products now entering the U.S. duty-free under GSP—rather than deal directly with the future of the GSP program scheduled to end in 1984? The approach taken in S. 2237 makes a mockery of Congressional intent in 1974 when GSP was enacted.

The AFL–CIO opposed GSP in the Trade Act of 1974. But with all of its shortcomings, that law at least tailored GSP somewhat in an attempt to limit the damage: by exempting some specific import-sensitive products—those products already heavily harmed by imports—and allowing for removal of others. The GSP law also contains mechanisms to limit the dollar amount and the quantity of imports that receive the preference. S. 2237 would sweep away these protectives, minimal as they are.

If S. 2237 is adopted, massive trade diversions—a flood of imports worldwide—can be funneled through any one or any combination of these 28 Caribbean Basin countries. Imports of virtually any product made anywhere in the world will also be able to penetrate the U.S. market through the U.S. Virgin Islands, Guam and American Samoa. All that will be necessary is the claim that 25 percent local content of the product originated in the Caribbean Basin region, or in U.S. insular possessions—even GSP requires a higher local content requirement of 35 percent, or if more than one country is combined, the requirement is 50 percent.

The ridiculously low local content provisions in S. 2237 make all industries in the U.S. subject to assaults from imports—without benefiting the economies of the Caribbean. If trade is to be used to help build healthy industries within the Caribbean countries, the bill should have much higher content provisions.

Past experience has taught us that assembly and pass-through arrangements like those contained in the bill can be used to sidestep U.S. trade and tariff laws. For example, the American watch industry fought against the use of the Virgin Islands as an entry point for Soviet watches (which, it was claimed were disassembled and assembled under trade rules in the Virgin Islands) some years ago. The arrangement merely helped destroy the U.S. watch industry. Job creation in the Virgin Islands was minimal. No watch industry developed there. But importers and foreign producers benefited.

The trade provisions of the bill contain no effective safeguards for U.S. industries against injury from imports. The bill empowers the President to designate any country as a beneficiary country if he "determines that such designation will be in the national economic or security interest of the United States and reports such determination to the Congress with his reasons therefor." Moreover, if injury is claimed by a U.S. industry, it is no longer sufficient for the International Trade Commission to determine under Section 201(b) of the Trade Act of 1974 that an article is being imported into the United States in such increased quantities as to be a substantial cause of serious injury. The bill imposes a new unrealistic burden on the ITC—to determine that the injury results from the duty-free treatment afforded under the Caribbean Basin Initiative.

Mr. Chairman, the 1981 trade data showed a sharp rise in U.S. imports not only of apparel but also of tires, glass, hand tools, nuts and bolts, machine tools, roller bearings, semi-conductors, motor vehicle parts, canned fish, aircraft engines and spacecraft parts. Are American workers now to be sent a legislative message that for the next 12 years, U.S. trade policy will encourage a continuous loss of U.S. jobs in each of these products or parts of products as well as the more sophisticated manufacture that we were told would comprise this country's new industrial base?

It is mystifying that the Administration's trade incentives for the CBI are proposed at a time when our nation already has a trade deficit of $40 billion with the world that includes a $3.2 billion deficit with the Caribbean Basin countries. At the same time, the U.S. value of imports receiving GSP treatment has risen to $8.4 billion up from $3 billion just six years ago.

The tax incentives proposed in Title III are equally astounding. Just last year, the Administration sold the Congress on a package of business tax incentives that will result in hundreds of billions of lost revenues to the Treasury. This was done ostensibly to encourage increased investment and productivity in the United States. Pictures were painted of countless purchases of machinery and equipment, plants springing up all over our nation, and of course shrinking unemployment lines. Now in Title III of S. 2237 the Administration is proposing "an unprecedented extension for five years of the investment tax credit to property which is used predominately in certain Caribbean Basin countries and which would otherwise qualify for the domestic investment tax credit." The purpose of this proposal is admittedly to "encourage the placement of machinery and equipment in the Caribbean Basin." This is contradictory to the whole purpose of last year's tax bill, that indicated its top priority was to increase domestic investment.

Not only will the credit be allowed to a U.S. citizen, resident or corporation investing in such property but the credit would also be passed through to a U.S. shareholder who owns 5 percent or more in value of the outstanding stock of a foreign corporation. The purpose of this provision is to encourage new equity investment in the Basin that is permanent in nature. According to the Administration, its investment tax credit proposal will cost the Treasury about $50 million in 1983 and a total of nearly $300 million during the 5-year period of the extension. However, the actual costs could be much larger and the tax credit mechanism is like an open-ended appropriation.

In addition, the Administration proposes extending the newly enacted accelerated cost recovery system (ACRS) and the investment tax credit to U.S. corporations operating in Puerto Rico and U.S. insular possessions. It is ironic that the cost of this provision to the Treasury would have paid for the $100 million in trade adjustment assistance training monies originally supported by the Administration but in its judgment no longer affordable. Yet the purpose of this provision is to further the flight of business from the United States.

The total tax incentives in the bill amount to over $800 million but that does not represent their real cost. When coupled with the bill's so-called trade incentives, the real cost will be higher U.S. unemployment caused by the manipulation of these proposals by the shippers who funnel worldwide U.S. imports through the Caribbean region. This will be accompanied by diminished U.S. investment in our own domestic industries and further decreases in U.S. industries' productivity.

In sum, the Administration's trade incentives are ill-conceived and unthinkable when balanced against the miseries brought by nearly 9 percent U.S. unemployment. Such incentives for further increases in unemployment must be rejected.

The trade and tax incentives will not answer the problems that must be addressed to develop Caribbean nations. They will simply assure continued swollen profits for multinationals at the expense of the U.S. economy.

The U.S. contribution is not reflected in the so-called cooperative actions of Mexico, Venezuela and Canada. The U.S. contribution needs to be reexamined in terms of more realistic approaches.

Mr. Chairman, there is a more intelligent and meaningful way to address the very real problems of the Caribbean Basin than what is proposed in S. 2237.

The AFL–CIO experience demonstrates that development must be based upon expanding the opportunities for the citizens of these countries, not by enhancing the benefits for multinational corporations. Internal market growth with rising living standards—not trade diversions—should be the route to economic development. These countries need help in developing the infrastructure that provides the real base for long-term improvements. It must involve improved education and training programs. In many countries, it must include land reform programs, and better means of encouraging internal self-investment, rather than the continual exodus of capital to Miami banks. And certainly a central element of development must be the assurance that the workers and people of the country become the chief beneficiaries of any development.

The AFL–CIO urges that the Committee send the Administration back to the drawing board to design a more thoughtful plan of assistance to that area—not a blueprint to further pauperize America. At the least, that plan should include recognition of the past effects of runaway industries in the Caribbean countries and the current plight of the U.S. economy.

STATEMENT BY THE AFL–CIO EXECUTIVE COUNCIL ON INTERNATIONAL TRADE AND INVESTMENT

The recession-bound U.S. economy continues to lose jobs and production, a trend aggravated by mismanaged trade policies and practices. The U.S. trade balance suffered a record $40 billion deficit in 1981. As the world faces recession, many nations are increasing their barriers to imports of U.S. goods and further subsidizing their exports to the United States. The Reagan Administration is ignoring these facts.

The Administration's monetary policies have brought a high value to the dollar—up 16 percent against major currencies since 1980—encouraging imports and retarding exports. These monetary policies have thus dealt a double blow—a downturn at home and a disaster in trade from added imports and slackening exports.

U.S. basic industries, already in need of revitalization, have been severely injured by the impact of expanded imports on top of the recession. Steel has suffered import penetration of about 20–25 percent of the U.S. market since last August. Auto imports in 1981 increased their share of a falling market to 31 percent in January. Apparel imports were over 33 percent of the market. Machinery and machinery parts imports caused new concern in a weakened market. With import pressure mounting, virtually every type of manufacturing and related services felt the brunt of lost orders both at home and abroad.

Instead of imports declining as they usually do in a recession, products of more than one-quarter of the manufacturing industries showed a sharp import rise in the third-quarter of 1981 over the same period the year before—these include such varied items as tires, glass, apparel, hand tools, nuts and bolts, machine tools, roller bearings, semiconductors, motor vehicle parts, canned fish, aircraft engines and spacecraft parts.

Even America's newest industries, the so-called "high technology industries," are beginning to be hurt by imports. By January 1982, the New York Times was reporting that the United States had lost its lead in computer chip technology and production of aircraft parts was expanded into closed economies—including the People's Republic of China.

While imports of manufactured goods rose 13 percent in 1981, exports of manufactured goods were up only 7 percent. There has been inadequate attention to the composition of exports. The dollar value of exports does not tell the full story in terms of jobs and products. For example, the U.S. exports much raw material involving relatively little labor instead of manufactured goods and processed foods which require considerable labor input.

Instead of continuing trade adjustment assistance promised to workers injured by imports, the Administration's 1983 budget proposal calls for a mere 1 percent of the 1981 outlays for trade adjustment assistance and a complete end of the program in 1984.

The only recognition of the need to act in the U.S. interest was the conclusion of the Multifibre Arrangement.

The AFL–CIO calls upon the President and the Congress to undertake a number of specific measures in the trade area:

Placement of temporary restrictions on harmful imports during the term of the recession to prevent added penetration of U.S. markets by foreign producers and a further weakening of the U.S. industrial base.

Enactment of additional domestic content laws to protect endangered U.S. industries, such as H.R. 5133, which assures the continued U.S. capability to produce autos.

Speedy and effective handling of the dumping and subsidy cases in steel, to assure the promised redress for these unfair trade practices.

Ending of the President's continued authority to negotiate further tariff reduction.

Assurance that a portion of U.S. raw material exports be processed in this country, so that export of products such as grain, logs, etc., is conditioned upon specific domestic processing.

Establishment of bilateral shipping agreements and adherence to cargo preference laws.

Extension of the "manufacturing clause" of the U.S. Copyright Law to protect against widespread losses of jobs in the printing industry.

Extension of Trade Adjustment Assistance to provide adequate compensation to those unemployed because of trade, and improve training, job search, and relocation aid to those displaced workers who need such help.

Commitment that foreign grant, insurance and loan programs, such as the Export-Import Bank, are carefully managed to safeguard U.S. interests at home and abroad. Despite defects of the Ex-Im Bank, funds must not be slashed until other countries cut or eliminate their subsidy programs. Ex-Im Bank funds and guarantees must not be extended to any Communist countries.

Aid in the development of Caribbean nations needs to be enhanced, but proposals for "one-way" free trade and additional investment incentives to U.S. firms for investing abroad should be rejected.

Vigorous enforcement of reciprocity provisions of the Trade Act must be undertaken.

The AFL–CIO believes that enforcement of the Trade Act and the fashioning of new remedies to assure a strong and diversified U.S. industrial structure are essential for America's well being.

AMERICAN FEDERATION OF LABOR AND
CONGRESS OF INDUSTRIAL ORGANIZATIONS,
Washington, D.C., January 19, 1982.

Hon. WILLIAM BROCK,
U.S. Trade Representative,
Washington, D.C.

DEAR AMBASSADOR BROCK: In terms of the Caribbean Basin proposal, the AFL–CIO believes the type of one-way free trade zone and expanded incentives for investment by U.S. firms is not the best means of dealing with the development problems in that area. The recent AFL–CIO Convention Statement on International Trade and Investment had the following to say on this issue:

"New proposals for trade arrangements with America's nearest neighbors, or with any other individual foreign country, should be based on a realistic assessment of the past and future impact of trade and investment not only in the host country but on specific parts of the U.S. economy and on U.S. workers. Differences as well as the similarities of the trade and investment regulations of the respective countries need to be recognized. The United States should continue to try to solve specific bilateral problems, but should not enter into so-called "free trade" areas that could cause massive distortions in import-export balances. We recognize the need to help friends achieve industrial development particularly the poorest of the developing countries. This requires that the emphasis should be on internal development, not on exports to the U.S. market at the expense of U.S. workers. The Caribbean Basin is an excellent example of an area where aid must be realistic to promote living standards and not at the expense of U.S. jobs or living standards."

It seems inappropriate that the U.S. should be urging its firms to invest abroad at a time when it has substantially cut corporate taxes in the U.S. for domestic investment purposes. Theoretically, these tax cuts were designed to bring about more investment in the U.S. and to raise domestic economic growth. To have those firms now encouraged to invest abroad seems to be a signal to all Americans that the purpose of the tax cuts is essentially to help those corporations rather than to help the domestic economy.

In terms of safeguards, it seems difficult to understand how safeguards can be written to assure that the investment made in the Caribbean is not investment taken away from the U.S. Furthermore, if a product line in the U.S. is transferred to one of the Caribbean areas it is an actual net loss. Clearly any total or partial shutdown in the U.S. should not be financed and insured by the Caribbean Basin program.

As most goods already come from the Caribbean areas under GSP, the extension of the duty free status to those limited products that are dutiable, implies that there must be some impact on the U.S. economy or those goods would have already been on the GSP list or the volume would have been such that GSP would have been removed because of competitive need formulas. We have been concerned with the lack of an adequate GSP enforcement and quick removal of GSP benefits when U.S. citizens are adversely affected by such imports.

Certainly industries should not be encouraged to move to the Caribbean to escape U.S. health and safety standards or other environmental regulations which would transfer that risk to other workers. Industries should abide by the basic health and safety standards of the U.S. Workers should also be guaranteed the basic right to organize and form free trade unions as conditions of any support of investment dollars. Free trade unions are an essential element for assuring the workers in those countries having a real share in any of the benefits of development.

If investment support is denied, dictatorships on the left, such as Cuba, Guyana and Grenada, then likewise dictatorships on the right, such as Haiti, Guatemala, etc., should be denied.

The Caribbean Basin proposal should assure that a fair share of the trade is transported on U.S. carriers, both maritime and airlines.

We believe these standards are essential for providing minimum safeguards for the Caribbean program. However, we believe that the emphasis should be on the building of essential developmental infrastructure and internal development rather than excessive investment incentives.

Sincerely,

Rudy Oswald,
Director, Department of Economic Research.

The Chairman. Thank you very much, Mr. Oswald. In your testimony you do mention the watch industry and the Virgin Islands and employment, that it is minimal, and that there are no real safeguards. I think pointing out things like that will enable the Office of the Trade Representative to be very alert to where the benefit is slight and the injury may be great. Those are the very kinds of things that we value your pointing out to us.

You mention that we have a $3.2 billion deficit with Caribbean Basin countries. I know there are many countries with whom we have a trade surplus, to whom we are shipping large amounts of food and grain. That is hardly a negative, because without that food and grain they would not be feeding their people and they do not have the capacity to produce it.

In this case, how much of that deficit is attributable to raw materials which, if our factories did not have those raw materials, we would not have jobs in this country? Are we not dependent for raw materials to a degree from some of these Caribbean countries? Certainly bauxite is an example.

Mr. Oswald. We are not against trade, Senator. We are very much for trade. Obviously, if they did not trade with us they could not buy some of our products.

We are concerned, however, that trade not be made a basis by which all standards be undermined in this country, and that trade be an essential element to enhance the well being of people, both in those countries as well as in our own.

The Chairman. I went through a business experience where, as CEO of a company, our employment in this country increased from 1,300 to over 10,000. I can well remember my first campaign against Otto Kerner. As you probably know, the AFL–CIO took out after me and said, will Percy export your job, too? It was a small matter of a million circulars distributed with the immense distribution system that you have.

The implication was all of our jobs from Chicago were going abroad. What was not said was that we made cameras in Chicago and made projectors in Japan, this made us really competitive and we were able to sell more. Our employment in the United States, as a result of these overseas operations, steadily went up.

I think that has been true of Caterpillar, also. They have increased their export market so much and they have increased dramatically their employment here. That is why sanctions for farmers or embargoes for them and sanctions for a Caterpillar or International Harvester are so devastating to them, because we have huge markets abroad.

My question gets back to U.S. labor costs, which are sometimes seemingly too high to make us competitive with third world countries, in operations like assembly operations, cut and stitch textile operations, and others. But rather than erect barriers to imports from the third world, what do you propose could be done to ease the impact of competition in areas where we no longer are competitive, and what would be the costs? How do we go about that, to still keep up this trade that I know you favor?

Mr. OSWALD. There are obviously a number of factors. One of course has been the impact in the United States of high interest rates and the impact on the value of the dollar. For example, in the last year and a half the value of the dollar versus the Japanese yen has increased by a third. There is no way that wages in the United States, of auto workers, for example, can offset that change in the value of the yen, that change of a third in a year and a half. That is a heavy influence.

Clearly, in your example of expansion in Bell & Howell, it was expansion of new products rather than a closedown of operations in Chicago. We would support elements in this bill that would prohibit closedowns of operations, but allow expanding operations to be shared in various places around the world.

We have, if anything, the least barriers of any country and we are not suggesting the erection of new barriers. What we are suggesting, though, is that new programs, such as the CBI, not become a mechanism for encouraging runaway shops.

The CHAIRMAN. Let us take a look at some of the areas of the labor market that should really receive our greatest attention in terms of softening the impact of increased competition from abroad. Some would come to your mind, I am sure. We have enumerated some right here in this legislation.

Are there tradeoffs that should be made, such as permitting competition in one area but defending in other areas?

Mr. OSWALD. Well, there are tradeoffs, for example, that are being made in the textile area, where currently hopefully there will be quotas that will be shifted from the Far East to the Caribbean without any additional impact on the United States. We believe the same sort of thing should take place in some of the GSP legislation. There is no reason why some of the more developed countries—and currently five of the largest nearly developed countries are the chief beneficiaries, get 80 percent of the GSP benefits.

If we graduated some of those countries, if we graduated some of the products for which they are eligible and transferred those rights to the Caribbean, then we would have achieved something without hurting the United States, and we would make the GSP program do essentially what we claim that it is intended to do, rather than essentially helping Hong Kong, South Korea, Taiwan. Brazil, and Israel.

Those five countries currently are the major beneficiaries, and I do not know why we are spending over $0.5 billion of foregone tariff under the GSP treatment for the equivalent of economic aid to those countries. Your committee has not been able to do that well in the economic aid for many of these countries.

The CHAIRMAN. Would you enumerate for us. Mr. Oswald, the most sensitive labor areas, and then geographically, in what States are those generally found, where would they have the greatest impact on this policy that might in your judgment adversely affect domestic employment?

Mr. OSWALD. Clearly, the highest levels of unemployment now are in the industrial heartland, with Michigan currently suffering an unemployment level of 16 percent. In Illinois, your own State, I believe the figures are also in the double digit range, around 12 percent for January.

The activities will vary in terms of the impact on particular industries. Some of the electronic industries that are currently excluded under GSP might move there. That obviously would affect Zenith in your own State, as well as some of the Warwick Electronics and some of the others.

Some of the steel is excluded currently and also is import-sensitive. There has been a big move to develop a big steel complex in Trinidad and Tobago. We are really not sure that we need additional steel capacity throughout the world.

It is essentially the import-sensitive elements that currently do not get duty-free, will get duty-free arrangements under that, and that would aggravate the current situation.

The CHAIRMAN. Are there specific products which are not now included in the Generalized System of Preferences which you believe might be produced in large volume for the U.S. market by Caribbean Basin countries?

Mr. OSWALD. There is serious concern among many of the unions for some of the ceramics, some of the shoes, some of the leather goods, for many of the novelty products, as well as some of the more sophisticated electronic assembly activities and operations. We feel that those should continue to be excluded.

Each year the Special Trade Representative's Office goes through a lengthy review of the nearly 2,900 products that are currently on the GSP list to determine which should be added and which should be subtracted. We believe that is an appropriate mechanism for making such determinations, though we feel that currently the process is wrong. The burden of proof is to why a product should not be on, rather than why a product should be on. We believe that burden of proof should be just the opposite, as to why a product should be on rather than why it should not be on.

The CHAIRMAN. It is sometimes argued that if we do not help Caribbean countries employ their own people there, we surely will be faced with the question of employing them here. That is why we are getting a tremendous influx. How do you respond to that argument?

Mr. OSWALD. Senator, we believe there should be help in developing the infrastructure and developing the education and developing the other aspects of what makes a country deal. I would like maybe to quote a little bit from the most recent issue of "Business Week," April 5, in relation to the Caribbean Basin, on page 42. Let me just read a little bit from the paragraph, if I may, because I think it highlights what we are saying needs to be done for that development:

> Companies, of course, are afraid of the spreading political violence that is working its way through the region. They are also scared off by a lagging infrastructure, uncertain supplies of electricity, and the low skills of the work force, that have long kept high technology companies out of many countries.
>
> "We looked at the Caribbean and Central America about 3 years ago," explains George Skalese, senior vice president of Advanced Micro Devices. "At the time there seemed some possibilities, but the drawbacks were too great. Transportation costs were sky-high and there was not enough power available."

Our emphasis would be to help the people develop their infrastructure, help them with their education and training, help them with the land reform, to give them a better share of things, a share that the capital stays in those countries and does not go to Miami and helps in its own development.

The CHAIRMAN. I happen to have written a plank in the Republican platform of 1960, when I was chairman of that platform. That is considered to be the strongest labor plank that ever has been written. We really laid out that the Republican Party recognizes—and it was adopted unanimously by the convention—that the labor unions have contributed more to the economic fiber and strength of the country, that the collective bargaining process has improved our economic climate and given us a higher standard of living, and that we are supportive of that.

Mr. OSWALD. We thank you for that support, Mr. Chairman.

The CHAIRMAN. I would like to indicate that because I did mention I was vigorously opposed in my first campaign, virgorously opposed for good reason, because my labor professor at the University of Chicago was running against me. Certainly any labor union who endorsed Chuck Percy at that stage over Paul Douglas was out of its mind, and I said so.

But since then I have had a very close working relationship with labor, as you know. I had meetings for years with George Meany. I gave a breakfast for all of the new entering Senators, and some of them had never met a labor leader before. They were just amazed at his wide perspective and viewpoint that he took on international issues, with all of which they seemed to agree, particularly the most conservative of them.

This weekend I had invaluable meetings with the labor council in Peoria to get a feel for unemployment: What do we do, where do we go? The labor committee I have has 26 labor members. Bob Gibbons is a very valuable member of that.

I could not operate without that kind of intimate counsel on the broadest ranges of issues, not just labor-management issues, but issues involving every aspect of our social system, our foreign policy, and so forth.

I just wanted to indicate, having been endorsed by every labor union in my last election, when I was in real trouble, including United Mine Workers, that have never endorsed a Republican before, I very much valued it. So any time you would ever want to get together with breakfast over here with some of my colleagues on issues, to just talk them out, I would be very happy to resume that.

We have another panel to hear. I understand that Professor Weintraub must leave at 12:15. My remaining question I will insert into the record for you, Dr. Oswald.

I will ask the fourth panel to please come forward, Dr. Cline, Dr. Fishlow, Dr. Newfarmer, and Professor Weintraub, to take the table now. Dr. Weintraub will be asked to testify first, then.

I must go down for this vote. I hope that Senator Dodd will walk in for just a minute and will pick up the gavel and begin the hearing. So you will excuse us. We will take a brief recess.

[Recess.]

The CHAIRMAN. Professor Weintraub, you were engaged early on in studies of the development needs of the Caribbean Basin economies. I understand there is a plane that you have to catch or there is some other reason for your being in a hurry. Please proceed.

STATEMENT OF PROF. SIDNEY WEINTRAUB, LYNDON B. JOHNSON SCHOOL OF PUBLIC AFFAIRS, UNIVERSITY OF TEXAS AT AUSTIN, AUSTIN, TEX.

Mr. WEINTRAUB. Thank you very much, Senator, for letting me go first.

The CHAIRMAN. I will just say we are going alphabetical in reverse order. [Laughter.]

Mr. WEINTRAUB. I will try to stick to my 5-minute time allowance, so that I can get out.

To give you my background in a sentence or two, I was a Foreign Service officer in the State Department for about 25 years before I moved to the University of Texas some 6 years ago. A good many of those years were spent either on economic issues or on Latin America.

My key point is that I welcome the initiative being made, and I believe the Congress as a whole should do so. My main reason for the welcome is that it adds an economic dimension to a policy that heretofore has been primarily militaristic and rhetorical.

What I propose to do in the few minutes available to me is touch on four general themes: first, very briefly, what is the universe of measures that the United States could take in any Caribbean initiative; were the ones taken the optimum ones; could some things be done that were not proposed; and then, finally, I want to spend a moment or so on the underlying model of the initiative, that special trade and tax measures will bring about development along the lines that the administration hopes will come about.

I take it as given, and will not spend any time on this issue now, that development is made possible not by what the United States or any external authority does, but by what the country does itself. This is evident and you have talked about it this morning, and I will not spend any more time on it.

Let me just touch on the universe of measures that an external country like the United States can take. I think they are really quite limited. We can use trade measures. We can either do this on a most-favored-nation or on a discriminatory basis, as is suggested here. We could use tax and investment measures, and we are doing that. We can provide all kinds of technical assistance, and some of that is being done. Or there can be other special allowances, such as giving special tourist allowances or tax incentives for holding conferences.

In the main, that is really the universe of measures. It is hard to think of any others. You can think of permutations and combinations of them, but these are the measures.

In the end, the administration chose three of these: special trade preferences, special tax incentives, and an increase in concessional aid this year. There are some other measures in the Caribbean Basin Initiative, but they are peripheral to the ones I have just cited.

Two of these are special: The one-way free trade in favor of the Caribbean region, which is a departure from the policy of more than 50 years; and the tax incentives for investment in certain foreign countries.

When I say that they are special, they are not original. The idea of special trade preferences has been around as long as our Republic has been around. If you go back and read Washington's farewell address, he warned us against doing just that, because it involved political involvement as well as trade involvement. We have come up against this issue periodically throughout our history.

I make this point not because I think it is necessarily wrong to discard the past policy, but I think the question that you must ask yourselves as you ponder this legislation is whether the benefits will be sufficient to overcome the costs.

While I support the Caribbean Basin Initiative and the need for economic measures, I am rather skeptical about the benefits.

The CHAIRMAN. Skeptical about what?

Mr. WEINTRAUB. Skeptical about the benefits of preferential trade or preferential tax treatment. Some of my colleagues have gone through some numerical exercises more completely than I have, but I think the increased trade that will result will be modest.

Second, I do not believe that you can extend preferences to the Caribbean Basin and not expect demands from other countries who feel they have an equal claim on the United States. I know today you can argue that there will be no precedents, but I just do not believe that.

Third, I do not believe that you can set up a special relationship of this type in the economic sphere and divorce yourself from the political relationship that you are setting up. The political relationship may already exist, but I think it intensifies when you do this.

Finally, my other reason for being skeptical is that there already are loads of incentives available for investment in the Caribbean. There are the tariff sections 806 and 807 that people referred to there already is the general system of preferences. One of the speakers earlier talked about tax holidays that U.S. corporations get when they invest in these countries. He referred to 5 years. Well, they are more frequently 15 years. In other words, there is no lack of incentives, and, as several people already have said, most of the trade with these countries is already duty-free now.

I guess my real quarrel with the administration on special trade and investment preferences is that they have done no quantitative analysis of the benefits that can be provided. I think you have a right to demand this kind of analysis.

Second, were the measures chosen optimum? I have sort of implied that I do not think so. In the case of textiles and apparel, they will be excluded from the special preferences, but they will be given preferential treatment in practice through larger growth than will be given to growth in imports from other areas, particularly Asia. I suspect that the textile and apparel benefits will turn out to be far more substantial than the explicit trade preferences.

This then leads me to ask whether or not you could provide preferential treatment to the Caribbean Basin without departing from 50 years of policy and buying a good many foreign policy resentments in the process. I think the textile and apparel example is one way to look at this.

I think it is time, actually, to graduate many of the advanced developing countries from GSP. I really see no reason to provide tariff preferences to Hong Kong, Taiwan, and South Korea, just to name a few countries.

Then, I think it is possible to add some other items to the list of preferences, which would be available only to the remaining countries. There you could be selective in providing some to the Caribbean Basin countries, selective in product selection, and graduate some others by product, if the other more advanced countries were graduated completely.

In other words, I think, therefore, that there are ways of preferring the Caribbean without building up all of the pressure for destroying what has been U.S. policy for the last 50 years.

Without respect to the tax incentives, Senator, I think it is overkill. Companies that now get 15 years free of taxes in addition now want further tax benefits. The companies also have other ways to shelter taxes of the United States. I really doubt that this new incentive will increase investment very much.

The business people, when you asked them earlier, or Senator Dodd asked them, the kinds of things that they consider when they want to invest, not one of them mentioned taxes. Taxes come into the investment decision, but they come in at a later stage, when all of the other conditions are fine.

The evidence on tax and trade incentives in stimulating investment and in stimulating trade in manufactured goods in the European community under the Lomé agreement is really not all that exciting. They do not show significant results.

Let me say one other thing that I think is missing from this proposal, and the Lomé agreement reminds me of it. What the Lomé agreement does between the European community and the African, Caribbean, and Pacific countries which are signatories to that is set up an ongoing process of deliberation, consultation, and meetings among policy officials. There is a process of reviewing regularly and periodically all of the issues in the relationship.

In developing the CBI the administration did much consultation, and for that they deserve a good deal of credit and kudos. I wish that the initiative when it goes through has a lot of forcing events of this type built into it, that in addition to having a piece of legislation there is a framework for continual reexamination of issues.

Let me make one final comment. The model that was followed in Puerto Rico was to reduce taxes and provide trade incentives. It was done on a more profound basis in Puerto Rico than is being proposed here. One of the results was to distort factor prices in Puerto Rico. Puerto Rican labor is now very expensive. Unemployment is about 18 to 20 percent. Concealed employment is about 20 percent.

Even in the heyday of Operation Bootstrap, Puerto Rico was able to improve per capita incomes only by the emigration of a good part of its population. In other words, the development that took place in Puerto Rico did not eliminate the emigration from the island to the United States.

I want to be clear, I am not attacking the model in Puerto Rico. I think it accomplished a good deal. But what I am saying is I think the administration owes you an examination of the Puerto Rican model and how it fits here before you accept that this model will, in fact, do what they are touting.

One other point on emigration, because you have raised this several times in your questioning yourself. There is no doubt that in order to stop emigration from countries to the United States you must provide jobs and opportunities in these countries. I do not think anybody can quarrel with that.

However, the evidence from all examination of emigration is that it is not the very poorest people, in general, who emigrate. It is those who have jobs, those who are already moving up on the economic ladder. The evidence is overwhelming with respect to Mexico.

Therefore, if you are accepting the assertion that in the short run emigration from these countries to the United States would drop, even if the initiative worked, you are going against the history of every examination of emigration. In other words, the slowdown of emigration takes decades, not years.

Let me summarize quickly. I sounded negative here, but I really do not mean to be, because I think that the administration is on the right track with respect to using economic measures. I question the techniques they have chosen, the trade and tax incentives. I think more evidence is needed that they are right. I think the initiative needs a framework for continuing forcing events with respect to the relationship between ourselves and the Caribbean Basin countries. And I think also that a good deal more evidence is needed on the validity of the development model presented in the initiative.

Thank you, Senator.

[Mr. Weintraub's prepared statement follows:]

PREPARED STATEMENT OF PROF. SIDNEY WEINTRAUB

My qualifications for testifying before you today include the following: I spent more than 25 years as a Foreign Service officer in the State Department, many of them living in and working on problems dealing with Latin America. When I left the government at the end of 1975, I was an assistant administrator of the Agency for International Development. Immediately prior to that I was a Deputy Assistant Secretary of State responsible for monetary, development finance, and foreign investment issues. Earlier in my career, I had been chief of commercial policy in the State Department's economic bureau. Two summers ago I prepared a comprehensive study for the International Development Cooperation Agency on the economic aspects, existing and potential, of U.S. policy in the Caribbean Basin countries. I have done much research as a university professor on Latin American trade, development, and related issues. As I noted above, I have lived in and traveled widely in Latin America. I speak Spanish.

I welcome the Caribbean Basin Initiative (CBI) and believe that the Senate and the Congress as a whole should do the same. It is an effort to add on economic dimension to a policy that heretofore has been mainly militaristic and rhetorical. I accept the assertions made by the administration of Cuba and Nicaraguan involvement in the turmoil taking place in El Salvador. Nor do I have any doubt that Cuban interference is made possible by resources coming from the Soviet Union. However, the ability of communist nations to fish in the troubled waters of the Caribbean Basin is made possible by the social and economic structures of many of the countries of this region.

Somoza was not overthrown by the Soviet Union or the Cubans, or by what some have asserted was a misguided human rights policy of the Carter administration. Nicaraguans from all walks of life did the overthrowing. The revolution has been captured by the Sandinistas, but the revolution itself was more deeply based. The civil war in El Salvador is taking place in what has been one of the most grossly unequal societies in Latin America. This is the basic stimulus for the unrest of which outside forces are taking advantage. Much the same can be said about economic inequality and political repression in Guatemala.

If what I am saying is accepted—and I believe that most informed observers would accept it—then an effective U.S. policy must try to deal both with the causes of unrest, namely, the economic and social situation in the region, and with the current symptoms, which are the violence and bloodshed.

What I propose to do in the remainder of my remarks is to touch on four general themes: what is the universe of measures the United States could take in an economic initiative dealing with the Caribbean Basin; were the choices made by the administration the optimum ones; are there actons that could be taken which were not proposed; and finally I wish to discuss the model which underlies the CBI, namely, that special trade and tax measures by the United States in favor of CBI countries will in fact promote development along the lines the administration seeks.

Before entering into the body of my comments, I wish to dispose of one type of criticism of the CBI, that its economic measures are too little and too late. They undoubtedly are late, but it is a counsel of despair to argue that it is ever too late to help promote economic and social development. The alternative is to do nothing, which only compounds the lateness. The resources being devoted to the CBI may well be too little, but I doubt that you gentlemen and your colleagues in the Congress are prepared to up the ante of resources for the Caribbean Basin. In the best of all U.S. budgetary worlds, I would recommend more aid resources for Caribbean Basin countries. In the real world, I find it mean spirited to criticize those who put together this program for coming out where they did in terms of resources.

This is not to say that I have no criticisms of the CBI. I do, and they will be made explicit.

THE UNIVERSE OF POTENTIAL MEASURES

It is a truism which needs no elaboration that development is made possible mostly at home by the policies followed by the governments and people of the Caribbean Basin countries themselves. Actions by the United States can buttress these self-help measures but cannot counteract steps that are self-destructive. This was always self-evident, but we also have learned the obvious from bitter experience. I do not propose here to get into the self-help measures that will be necessary for each of the Caribbean Basin countries to take. They vary too much among countries. In addition, this is another theme. The subject which I am addressing relates to the steps the United States can take to buttress domestic measures taken in the countries themselves or, put differently, what the United States can do to facilitate the necessary self-help measures.

Anyone who has spent any time in the practical end of the development business knows that the universe of feasible external economic measures is quite limited. We, the external actors, can provide aid in various forms, accompanied by different kinds of conditions relating to domestic policy. We can use trade measures, either on a most-favored-nation or a preferential basis. We can encourage U.S. investors to open or expand enterprises in foreign countries through tax and investment insurance techniques. We can provide technical assistance of one form or another, depending on the particular needs of the countries involved. We can grant other special privileges, such as special allowances for returning tourists or tax incentives for holding conferences outside the United States.

The foregoing listing really is just about the total universe. Any of you can think of some combinations and permutations that you feel are especially appropriate but I doubt that anything new or unique would emerge. I make this point so that you will appreciate what the policymakers in the executive branch faced. They had to choose a particular combination from a limited universe of potential U.S. measures. Criticism that they should have been more "imaginative" or more "innovative" is essentially demagoguery.

In the end, the administration chose three kinds of initiatives: special trade preferences; special tax incentives; and an increase in concessional aid. There are other aspects of the CBI, but they are hardly unique to the CBI, nor would new legislation be needed to carry them out. These are: conclusion of bilateral investment treaties; the provision of technical assistance through current aid programs and via the private sector; and the examination in multilateral agencies of ways to augment the U.S. political risk investment insurance program. I do not want to dismiss these measures, since they could conceivably have some long-term beneficial impact. However, each one antedates the CBI, extends well beyond the Caribbean Basin, and can be done even without the CBI.

Of the three key measures that the administration singled out for the CBI, two deserve the label "special." The United States does not have special one-way free trade in favor of any region. The United States does not provide tax incentives for investment in certain foreign countries that are not generally applicable. This departs from the principle of neutrality in directing investment Neither measure is particularly original. The idea of special preferential treatment has been around as long as the Republic. George Washington specifically advised against such special trade treatment in his farewell address because he was concerned that special trade preferences inevitably would lead to special political involvements and he was warning his countrymen against this. When the general system of preferences (GSP) was instituted by the United States in 1976, it came only after debate on and explicit rejection of special preferences only for Latin American countries.

A basic question, therefore, is whether this departure from long-standing trade policy of nondiscrimination should be discarded. Are the benefits likely to outweigh the costs? I will deal with this question shortly.

The same kind of question can be asked about special tax treatment for U.S. investors investing in foreign countries. There are costs in encouraging outward foreign investment. There are costs in limiting these incentives to certain countries and not to others. The disquiet about U.S. political involvement is amplified when the special treatment covers both trade and tax measures. The resentment by nonpreferred countries is multiplied when the discrimination they face is double, covering both trade and investment.

I am skeptical about these preferential measures. I base my skepticism not on some idealized concept of nondiscrimination, but on practical grounds: that resentment by nonpreferred countries will complicate total U.S. foreign policy; that this resentment in due course will lead to an extension of these preferences; that the outcome will be a world divided into more explicit spheres of influence than now exist, under which each of the industrial regions of the world. Western Europe, Japan, and the United States, will take economic and political responsibility for particular groups of developing countries; and, finally, because I doubt that the special trade and tax preferences will lead to very much more trade or any extensive new investment. If this last impression turns out to be accurate, we will have abandoned well-tested policies based on practical considerations and bought ourselves much travail in the conduct of U.S. foreign policy.

My misgivings about the practical results of these preferences are based on several considerations. There already are considerable incentives for investment in Caribbean Basin countries. These include GSP, sections 806.30 and 807.00 of the U.S. tariff code, under which certain imports into the United States are subject only to the duty on the value added in the country of assembly, plus the generous tax holidays U.S. corporations already can get for investment in these countries. Who would want to invest today in El Salvador, Nicaragua, Guatemala, even with tax and trade incentives?

Other than oil, about 13 percent of U.S. imports from Caribbean Basin countries are now subject to U.S. duties. These duties exist because the products are sensitive. The duties are there to protect some U.S. producer or worker, or one in Puerto Rico or the U.S. Virgin Islands. Among the products involved are sugar, rum, gloves, handbags, baseball equipment, electrical and electronic equipment, footwear, tobacco and cigars, drugs and pharmaceuticals, and some fresh fruits and vegetables. If all the current duties now applied were removed, about $800 million of currently dutiable imports could enter the United States duty free, and some of this foregone duty would revert back to the Caribbean Basin countries. About a third of this would be accounted for by sugar, particularly from the Dominican Republic, but also from Guatemala and Panama.

The central issue is not the duty foregone on current imports, since we know that Caribbean Basin countries can compete in these products, but rather the new investment that special trade and investment preferences might stimulate. The administration has provided no analysis of this. You must accept their assertion on faith. I guess I am a man of little faith in this respect.

WERE THE MEASURES CHOSEN OPTIMUM?

Let me start out this section with the uncertainty I feel. I do not know if the special trade and investment preferences will have much effect on trade and investment. I doubt that they will. If I am wrong, if the preferential measures have the desired impact of increasing U.S. investment and U.S. imports from the Caribbean Basin countries beyond what would have occurred anyway, then the abandonment of past practice may be worth it. My questioning is based on the concern that principle will be abandoned without significant practical effect.

Can this concern be allayed? My suspicion is that it can be, not completely, but substantially.

In the case of textiles and apparel, the administration decided not to recommend duty-free entry, undoubtedly because of the domestic sensitivity of these products, but instead to permit more growth in imports from Caribbean Basin countries. This import growth presumably will not be at the expense of domestic producers but rather be accomplished by limiting the growth allowed to other exporting countries, particularly those in Asia. In order to meet the objections of domestic interests, therefore, a scheme was devised to permit preferences in practice rather than to alter basic principles. The preference in practice for textiles and apparel may turn out to be more significant in increasing exports of the Caribbean Basin countries than most of the other *de jure* preferences.

This procedure could have been followed for other products of interest to Caribbean Basin countries, by expanding the list of items eligible under GSP, by graduating more competitive supplying countries from GSP eligibility for these products, or some combination of the two. This would not be possible for all products, but it is possible for many. This is a time-honored practice in commercial policy, to provide pinpointed concessions to particular countries by product selection without abandoning the most-favored-nation principle. It is not a splashy procedure, as one-way free trade may be, but it can be almost as effective.

Under the CBI, the special preferences would be extended for 12 years. Unless extended, GSP will terminate at the end of 1985. It is possible to extend GSP for another 12 years, Congress willing, but limit it to the truly less-developed countries, that is, to graduate the more developed beneficiaries of GSP. Hong Kong, Taiwan, South Korea, to name just a few countries, hardly need these special privileges in their export programs. Such graduation would restrict the competition with CBI countries under preferential arrangements to other low-income countries. The value of this procedure is that it maintains the generality of trade preferences for all developing countries that need this benefit, but excludes those that do not.

With respect to the special tax incentives, what would be created is a situation in which U.S. investors receive a concession at the expense of the U.S. Treasury and then another concession, via a tax holiday, at the expense of the treasuries of the Caribbean Basin countries. This has all the earmarks of overkill.

Let me summarize my concerns. The first is that the special measures being proposed will have little practical effect in expanding investment or trade above what these would be without the measures. This concern will be heightened if the Congress limits some key products from the special trade preferences. I expect that many of you already are being lobbied to do precisely this. I fear that we will be providing tax concessions for investment that would have occurred in any event. Finally, we will arouse resentments on the part of countries that will face discrimination and these resentments will lead to pressure to expand the special preferences. Most of these concerns can be mitigated by eliminating the new tax incentive and by the procedure described earlier of granting preferences in practice on an item-by-item basis rather than via a more spectacular initiative.

OTHER POSSIBLE STEPS

One of the admirable aspects of the CBI is that it was devised only after extensive consultation with other countries, both those which would receive benefits and those granting benefits, namely, Mexico, Venezuela, and Canada. What is missing from the CBI is some built-in technique to continue this process of consultation.

Governments act when there are forcing events. The forcing event for the CBI itself is the unrest in the region and the realization that sustained tranquility and progress requires an economic dimension. Another type of forcing event is a scheduled meeting of policy-level officials to deal with aspects of the economic development of Caribbean Basin countries. Such meetings can concern themselves with trade and investment policy, which are the centerpieces of the CBI, but with much more than that. Development also requires policy action in agriculture, transportation, communications, health and population, immigration, and so on.

A series of measures taken now may not be appropriate to the situation a year from now. Actions omitted at this time may be propitious a year and a half from now. An action taken today in anticipation of significant results may turn out to be a bust.

What I suggest is that a framework be added to the CBI under which the process of consultation and deliberation among the many granting and recipient countries can be ongoing over time. This is one of the features of the Lomé agreement between the countries of the European Community and the African-Caribbean-Pacific countries.

I would urge the administration to consider some such mechanism to force regular reexamination of all the elements of the CBI. An initiative is not something that can be put in place and then forgotten. It gets its life from a process of interaction and adaptation to changing reality.

THE UNDERLYING MODEL

The model on which the CBI is based is that if the United States provides tax and trade concessions, the magic of the marketplace will lead to self-sustaining growth. Perhaps, but there is little solid evidence that the model is in fact valid.

This, in a more profound way, was the model followed in Puerto Rico. A great deal was accomplished, particularly to raise Puerto Rican per capita incomes. But many problems also were created. The inflow of capital, made cheaper by the tax concessions, tended to distort factor prices. Labor in Puerto Rico is more expensive than elsewhere in the Caribbean. Profit remittances and interest payments from Puerto Rico to the mainland have led to a gap between what is produced on the island and what is available to people who live in Puerto Rico. Puerto Rico's open unemployment is between 17 and 18 percent and its concealed unemployment is about another 20 percent. Even in the heyday of "Operation Bootstrap" Puerto Rico needed the safety valve of emigration to the mainland.

In sum, there is some legitimate question as to whether an economic development model in an underdeveloped country that makes capital cheap, especially capital coming from abroad, and then increases dependency on the United States through special trade preferences, does not create as many problems as it solves.

I wish to be clear. I am not attacking the model used in Puerto Rico, nor am I asserting unequivocally that a comparable model is wrong for other Caribbean Basin countries. Rather, I am stating that the efficacy of the model is unproved and that a good deal more analysis of its validity is needed before embarking down that path. I am raising questions about the value of special trade and tax incentives of the types that make up the centerpieces of the CBI proposed by the administration.

One other word on Puerto Rico (and the U.S. Virgin Islands) may be useful. As all of you know, the trade preferences enjoyed by Puerto Rico in the U.S. market have diminished over time because of the successive rounds of tariff negotiations in the General Agreement on Tariffs and Trade. The remaining preferences would disappear under the proposed CBI with respect to Caribbean Basin countries for competitive products. I mention this to bring out one of the major problems of preferential trade. Such preferences are useful to the countries receiving them only as long as the discrimination against other countries persists. Consequently, a vested interest develops in maintaining discrimination. Implementation of the CBI as proposed must clearly entail some compensating tax or other concessions to Puerto Rico.

One final point. The administration has implied that the CBI may curtail immigration into the United States. There is ample evidence that persons who emigrate to the United States generally are not the poorest people in their societies, but rather those energetic individuals who already have demonstrated upward mobility. Most Mexicans who come to the United States are not the unemployed, but rather those who have jobs and wish to improve themselves even more. As noted above, immigration from Puerto Rico has continued despite rising per capita incomes. It would be a mistake to expect that the CBI, even if effective, will have much impact on illegal immigration to the United States over the foreseeable future. Economic growth is necessary to resolve emigration pressures, but the process must be measured in decades, not years.

CONCLUSION

I wish to make four points in closing.

(1) The CBI deserves your support, not necessarily in all its details, but in its basic thrust. By this I mean that more aid is necessary for many of the countries, and that over time they will have to earn their ways via trade and earnings from various types of services, such as tourism.

(2) I question the value of special trade and tax incentives as proposed. This questioning is not based on some philosophic abstraction but rather on the practical basis that little will be accomplished at great cost. If you go ahead with special trade and tax incentives, I hope I am proved wrong.

(3) I do not question the need for broad development in the Caribbean Basin countries. One element of this development must be access to the U.S. market for products produced, but this is only one aspect. It is for this reason that I suggest establishing some procedure under which the essential development requirements of the Caribbean Basin countries can be discussed in a practical way with the interested donor countries on a systematic and regular basis.

(4) Finally, more evidence should be presented on the validity of the development model that the administration has proposed.

Thank you.

The CHAIRMAN. Thank you, Professor. I just have one question. You have mentioned in your testimony that some people say this is too little, too late. One aspect of it that is of concern, that the CBI includes $350 million in ESF funds, primarily to help countries to deal with their short-term balance of payment problems. Yet we hear of capital flight from those same countries in the neighborhood of $1 billion a year.

Would $350 million make such of a difference when you have a billion dollars going out?

Mr. WEINTRAUB. It will not in the total scheme of things, I think, unless, as others have already said, unless there is a good deal more stability in these countries, whose lack is the basis for the capital flight. But some of these funds, depending on where directed, could be useful in various infrastructure and other basic areas.

I have not addressed myself to the division of these funds among the countries. But you are right, unless there is some stability, what we throw in will not have great impact.

The CHAIRMAN. Professor, we thank you very much indeed. If you leave now, I hope you will be on time.

Mr. WEINTRAUB. Thank you very much.

The CHAIRMAN. Thank you very much indeed.

Professor Fishlow, you are a distinguished professor at Yale University and former Deputy Assistant Secretary of State for Latin American Economic Affairs. We welcome you back and welcome the new perspective that you have now. You have the total freedom now to say anything you want without any kind of restraints.

I notice the difference in retired foreign service officers, such as Ambassador White, against restraints placed on existing foreign service officers. As a professor, I know you always feel free to speak pretty freely.

STATEMENT OF PROF. ALBERT FISHLOW, DIRECTOR, COUNCIL ON INTERNATIONAL AND AREA STUDIES, YALE UNIVERSITY, NEW HAVEN, CONN.

Mr. FISHLOW. I am very pleased to be here this morning.

I must say also, as director of the international relations program at Yale, I am certainly very happy to welcome your son next year. As my testimony may suggest, he possibly will be exposed to a slightly different point of view about Latin American development problems than he has received hitherto at home. But I hope that in balance it will work out appropriately.

I will summarize my statement in view of the limited time and submit it for the record.

The Caribbean Basin Initiative is certainly a welcome recognition by the administration of the relevance of economic development to U.S. national security. Many of its characteristics are certainly to be lauded. Yet I believe that certain cautions are also necessary, lest there be unfounded expectations of what this initiative can really be expected to yield.

In particular, I want to stress four caveats: The exaggerated emphasis upon the private sector; the limited gains to be expected from freer trade; the possible distortions stemming from the investment tax credit; and the defects of the proposed distribution and magnitude of development assistance.

With regard to the private sector, the administration's emphasis stems from its strong belief that such a focus is likely to yield sound economic development, as well as political stability. I want to distinguish, however, between a market-oriented strategy and a private sector strategy. History tells us that within this region the private sector has not been the motor of economic development or social change.

The grinding poverty that is faced by so many in the region is far more the result of generations of private sector decisions taken locally than an overactive public presence. Under the conditions of concentration of wealth, inadequate educational and health facilities, and limited infrastructure, private calculations of profit do not readily translate into the proper choice of technology or allocation of resources, let alone an appropriate distribution of income.

What is essential for the small open economies in the region is that they pursue development with close attention to market signals. But that very need may require a strong public sector to provide technical assistance to the agricultural sector, to counter monopoly power of local producers in limited and protected markets, to tax exports of nonrenewable resources, as well as to finance the complementary public investment that is necessary to attract private investment.

Successful market orientation, in short, requires an appropriate balance of public and private sector activity. The private sector and the market alone are inadequate to resolve the serious poverty found in parts of the region, just as public expenditure alone is insufficient.

Taken literally, the administration's single-minded thrust would make El Salvador's nationalization of the banks and agrarian reform hostile acts. That obviously is not intended or reflected in the allocation of development assistance. But itis mischievous, I think, both in the United States and in the recipient countries, to couch the initiative in such terms.

This is the more true when U.S. political objectives are taken into account. It is very much in our interest that the economic and social structures in the region undergo rapid change, economic growth accelerate and lead to better distribution of the benefits for those deprived.

For at least part of the private sector already in the region, long accustomed to privilege, serious reform remains anathema and a fate little better than explicit subversion. Surely, in view of the continuing U.S. effort to create a moderate center in El Salvador and Honduras, we do not want to send wrong signals to political opponents of the far right.

That, however, is exactly what the insistence upon the private sector in a single-minded fashion can do. Such an emphasis makes of the Caribbean Basin Initiative a distorted version of the Alliance for Progress. The Alliance, also a reaction to an active security threat in the region, defined the way out through extensive social reform and economic planning. Now the CBI substitutes the private sector while ignoring social reform.

The Alliance certainly had its deficiencies, not least of which was its very short duration. But a Caribbean Basin Initiative devoid of serious attention to reform is a faint hope for President Reagan's planned "political and social tranquility based on freedom and justice."

Let me turn now briefly to the question of free trade. The basic point is that the combination of limited dutiable imports and low levels of duties translates by most conventional calculations into a limited benefit. Conventional estimates would suggest increases of about one-half of 1 percent of the current levels of total trade of these particular countries. Even this increment includes privileges already available but not fully utilized under the generalized system of preferences.

Now, it is certainly true that these calculations understate a larger adjustment potentially available over time as trade is diverted to the region. But it will not change regional orders of magnitude, nor hold out much hope of balance of payments assistance even in the medium term. Here I would emphasize and add that even were significant additional offshore processing to flourish in this free trade area, the gain would not be the total increase in exports, but only net of the required imported inputs.

This assessment of limited benefits is reinforced by the actual experience of the principal regional beneficiaries of GSP. Of a dozen large countries, only four increased their eligible duty-free exports as fast or faster than the average for all developing countries between 1976 and 1979. This mixed response is the more disappointing since the small size of basin countries means that the absolute dollar limitations under the GSP would have been less inhibiting than for other developing country exporters.

What these comments suggest is the need to focus more directly on the continuing effects of commodity export prices, of the price of imported oil, and even of interest rates, in their impact upon the balance of payments. It would be a mistake to presume that the free trade offer effectively counteracts these circumstances, nor will it necessarily be the case that the free trade will create a boom in investment in new products.

It is neither in our interest nor in that of the basin countries to reverse the process of trade diversification of recent years.

I go on to discuss the investment tax credit and the fact that it creates a bias in favor of capital rather than labor-intensive investment, and call attention to the recent editorial in Business Week which cautioned against the impacts that might occur.

Finally, I also emphasize that the development assistance can only be judged in the context of a broader program for aid to the region, and that the implications of its distribution should be assessed. In balance, the initiative is to be welcomed, but it also must be questioned.

Thank you very much.

[Professor Fishlow's prepared statement follows:]

Prepared Statement of Prof. Albert Fishlow

INTRODUCTION

The Caribbean Basin Initiative is a welcome recognition by the Administration of the relevance of economic development in those neighboring countries to United States national security. Many of its characteristics are to be lauded: its broad design; its multi-year horizon; its explicit recognition of the role and interests of other Latin American countries in the region like Venezuela, Mexico and Colombia, as well as Canada. Yet certain cautions are also necessary, lest there be unfounded expectations of what this initiative, as formulated, can be expected to yield.

In particular, I want to stress 4 caveats: the exaggerated emphasis upon the private sector; the limited gains to be expected from freer trade; the possible distortions of the investment tax credit; and the defects of the proposed distribution and magnitude of development assistance.

THE ROLE OF THE PRIVATE SECTOR

The emphasis upon the private sector has been manifest in all of the Administration pronouncements about the initiative, starting from eligibility to receive free trade benefits to the formulation of private sector strategies for each country. This stems from the strong belief of the Administration that such an emphasis is likely to yield sound economic development as well as political stability.

While a market oriented strategy is indeed a necessity for these small countries that are inevitably integrated into the international economy, exclusive reliance on private sector decisions guarantees neither equitable development nor efficient market responsiveness. History tells us differently. The grinding poverty faced by so many in the region is more the result of generations of private sector decisions than an overactive public presence. Concentration of wealth, inadequate educational and health facilities, and limited infra-structure create a context in many countries where private profit calculations do not translate into the proper choice of technology or allocation of resources, let alone an appropriate sharing of the benefits of economic growth.

What is essential for these small, open economies is that they pursue their development with close attention to market signals, not only present but also prospective. That very circumstance may require a strong public sector to provide technical assistance to the agricultural sector; to counter monopoly power of local producers in limited and protected local markets; to tax exports of non-renewable resources; as well as to undertake the complementary investment that helps determine the profitability of different types of private investment. Successful market orientation, given the disequilibria found in many of these economies, requires an appropriate mix of public and private sector activity, rather than the latter exclusively. This balance is the more critical when the large disparities of personal income are taken into consideration. The private sector, and the market alone, are inadequate to resolve the serious poverty found in parts of the region, just as public expenditure in isolation is insufficient.

Taken literally, the Administration's single-minded thrust would make El Salvador's nationalization of the banks and agrarian reform hostile acts. That is presumably not intended, and certainly not reflected in the allocation of development assistance. But it is mischievous, both in the United States and in recipient countries, to couch the initiative in such terms. It can only lead to misunderstanding if not misdirection in its implementation.

This identification is the more vexing when United States political objectives are taken into account. It is in our interest that the economic and social structures in the region undergo rapid change—increased economic growth and better distribution of the benefits to those most deprived. For at least part of the private sector in the region, long accustomed to privilege, serious reform remains anathema, and a fate little better than explicit subversion. Surely, in view of the continuing United States effort to create a moderate center in El Salvador and Honduras, we do not want to send wrong signals to political opponents of the far right. That, however, is exactly what the insistence on the private sector as the chosen medium of United States assistance can end up doing.

Such an emphasis makes of the Caribbean Basin Initiative a distorted version of the Alliance for Progress. Also spawned in the aftermath of an active security threat in the region, the Alliance defined the way out through extensive social reform and economic planning. Now the Caribbean Basin Initiative substitutes the private sector while ignoring the social reform. While the Alliance certainly had its deficiencies—not least its limited period of application—a Caribbean Basin Initiative devoid of serious attention to reform is a faint hope for "political and social tranquility based on freedom and justice."

THE CONTRIBUTION OF FREE TRADE

The unique aspect of the Initiative is its broad concession of free trade access to the United States market for a period of 12 years. This measure is less generous than it appears at first blush, however. Currently, countries of the region already enjoy liberal entry, primarily because of zero duty on raw material imports but also because of eligibility under the generalized system of preferences. It is estimated that in 1980 some $800 million of dutiable imports would have been eligible for the new, more favored treatment out of initial imports of more than $10 billion. In the second place, the average duty on such imports is quite low. Illustrative is the average duty of 7 percent paid in 1980 by the five countries forming the Central American Common Market. These circumstances taken together mean that the new trade opportunities generated by the Initiative are unlikely to be of a significant order of magnitude. Conventional estimates would suggest increases of about one-half percent of current levels of total trade.

And even this increment includes privileges already available, but not utilized, under the generalized system of preferences. Compared to total foreign exchange earnings, including non-U.S. exports, the gains are further more than halved. Even if we exclude processed petroleum products, thereby reducing the trade base, we are talking about benefits of little more than 1 percent of trade with the United States, and less than half as much overall.

Because some sensitive products now excluded from the GSP are included, and by reason of the 12 year guarantee, it is conceivable that these calculations understate a larger adjustment over time as trade is diverted to the region. But it cannot much change such regional orders of magnitude, nor hold out much hope of balance of payments assistance even in the medium term. For even were significant additional off-shore processing to flourish in this full free trade area, the gain would not be the total increase in exports, but only net of the required imported inputs.

This assessment of limited benefits under the free trade provision of the Initiative is reinforced by the actual experience of the principal regional beneficiaries of GSP. Of a dozen countries, only four increased their eligible duty free exports as fast or faster than the average for all developing countries between 1976 and 1979. This mixed response is the more disappointing since the relatively small size of Basin countries means that the absolute dollar limitations under the GSP would have been less inhibiting than for larger exporters.

This analysis suggests that the trade consequences of the Initiative may well be modest, particularly in the near term. Much more impact on the region's balance of payments will continue to be exerted by the movement of commodity export prices, of imported oil, and even of interest rates that determine debt service outflows. It would be a mistake to presume that the free trade offer effectively counteracts these circumstances. At the same time, its regional specificity weakens the United States position in favor of non-discriminatory trade arrangements, and creates new potential dependency. It is neither in our interest nor that of the Basin countries, to reverse the process of trade diversification of recent years.

THE INVESTMENT TAX CREDIT

The Administration has proposed that the domestic investment credit of 10 percent be extended to machinery and equipment used in Basin countries. Such a system, in place for an initial 5 years, would make the tax treatment of investment in the region more attractive than in other foreign countries.

Because the incentive applies to capital, and is undifferentiated by sector, it will make relatively more attractive capital, rather than labor, intensive undertakings. Since a prime intent of the Initiative is to increase employment opportunities, the tax credit provision may not be the most appropriate instrument to evoke the kind of foreign investment that should be most encouraged.

I can do no better, in making this point, than to quote from an editorial in the March 15, 1982 edition of Business Week: "A sad example of what can go wrong is Puerto Rico: For 30 years the island has used lavish tax incentives to lure mainland investors. But too many of the factories it attracted have been capital intensive and have created few jobs. At the same time, its agriculture declined."

We must be careful not to rehabilitate an outmoded model of enclave investment in the region whose contribution to short-term growth will be negated by its longer-term adverse consequences. In seeking to extend more direct foreign investment into the region in an undiscriminating way, we may be performing a major disservice. Local savings and investment should be favored. In providing incentives and guarantees to encourage our private sector we may be handicapping theirs. Instead of simply generalizing the Puerto Rico model more widely through the region, we should be learning from it.

This potential adverse impact will be the greater if we limit the capacity of Basin countries effectively to oversee their economic activity, and to impose appropriate regulations. These countries are quite heterogeneous in character, with rural problems that vary. They are not subject to uniform solutions of imported agro-industry rather than, say, agrarian reform. The Initiative should not introduce new market biases by undifferentiated incentives to foreign private participation.

DEVELOPMENT ASSISTANCE

The proposed addition of $350 million in Economic Support Funds for Fiscal 1982 and a request for a further $326 million in Fiscal 1983 respond to the severe short-term problems of many of the countries of the region. They succeed in raising aggregate United States bilateral assistance from its previous low levels. It is welcome recognition that in this small sub-region whose access to private capital markets is relatively limited, official finance—bilateral and multilateral—can still make a difference.

Whether the new infusion of resources should be so skewed in favor of support funds, and not programmed more adequately in longer term projects in priority sectors, is not equally obvious. The consequence of such an emphasis is to diminish attention to the poorest countries and to the fate of the lower income population in the richer. Thus the share of Haiti and Honduras, the poorest countries in the region, decline from 8.6 and 15.6 percent in fiscal 1980 to 5.2 and 9.5 percent in fiscal 1983. Development assistance falls from 69 percent to 33 percent over the same period. One can recognize the importance of making available foreign exchange to facilitate short-term imports even while pursuing a longer term strategy of structural change.

Nor is it possible easily to evaluate the programming of the economic support funds themselves. Directed to the immediate improvement of the balance of payments of key Basin countries, these sums can only be judged in relationship to the resources also being made available by other donors. What one does *not* see is a longer term strategy that systematically takes into account present levels of indebtedness and hence future obligations, variability in the terms of trade, and import requirements imposed by higher rates of economic growth. These support funds are not a matter of one or two years alone. Seeking to deal with them as though they were reduces their usefulness and provides an inaccurate picture of continuing financial requirements within the region. This is especially the case since limited trade benefits are likely to materialize even in the medium term.

CONCLUDING OBSERVATIONS

The Caribbean Basin Initiative's prospective success will be enhanced by an implementation, if not a rhetoric, that is respectful of the critical balance of public and private sector participation that is required, in Basin countries as well as in our own contribution. In neither instance is the private sector the exclusive vehicle. If we are to begin to achieve our development and political objectives in the region, we must approach the task without narrow ideological preconceptions. We must be prepared to cooperate with other donors, national as well as the international financial institutions, and with recipients with differing socioeconomic models. We must be prepared to make a commitment of long-term proportions and to assess our share of the costs realistically and accurately. Even then, we must also be prepared for modest achievement: successful economic development is neither easy nor an instant guarantor of political stability.

The CHAIRMAN. Thank you very much.

I think we ought to take particular note of the admonition to watch closely market signals, but also the problem that that creates when you require a strong public sector. The public sector notably is not responsive many times to private market signals. That is one of our great problems.

Thank you.

Dr. Cline? Dr. Cline has done a good deal of detailed analysis of the Central American economies under the Central American common market. We welcome you here today, Dr. Cline.

[Dr. Cline's biographical sketch follows:]

BIOGRAPHICAL SKETCH OF WILLIAM R. CLINE

Ph. D. Yale University (1969), Economics.

Positions: Assistant Professor, Princeton University 1967-70; Ford Foundation Visiting Professor, Brazil, 1970-71; Deputy Director for Trade & Development Research, U.S. Treasury Dept., 1971-73; Senior Fellow, The Brookings Institution, 1973-81.

Publications Include: "Economic Integration in Central America," Brookings Inst., 1978; Trade Negotiations in the Tokyo Round," Brookings Inst., 1978; "World Inflation and the Developing Countries," Brookings Inst., 1981; "Agrarian Structure in Developing Countries," Johns Hopkins Univ., 1979.

Current teaching: Professorial Lecturer, Latin American Economic Development, Johns Hopkins School for Advanced International Studies.

STATEMENT OF DR. WILLIAM R. CLINE, SENIOR FELLOW, INSTITUTE FOR INTERNATIONAL ECONOMICS, WASHINGTON, D.C.

Mr. CLINE. Thank you, Mr. Chairman.

I wonder if I might know how long we have for our presentations?

The CHAIRMAN. It is roughly 5 minutes. The full text of your statement, of course, will be included in the record. Most of you did provide copies to us. We have had a chance to look through them carefully. But I think for our audience's purpose it would be helpful to have you summarize it.

Mr. CLINE. Thank you very much. I will attempt to do so.

I might start out by saying that I too welcome the Caribbean Basin Initiative. I am less concerned than Professor Weintraub about the departure from most-favored-nation practice. When one considers the strategic location of this region and its low per capita income relative to the rest of Latin America, and the fact that the graduation principle would recommend that if there were to be any differentiation it would probably be in the direction of favoring this region, it seems to me that there is cause for departing from our past policy of adhering only to generalized preferences.

I think the initiative also is important in its recognition of the economic causes of political instability in the region. These include declining per capita income in some countries, the politically corrosive effects of inflation, the unevenness of the distribution of income, the presence of capital flight, although I would note that the capital flight is primarily limited to El Salvador, Guatemala, and Nicaragua, and the very high trade balance deficits and debt that are affecting the region.

I would like, however, to pass quickly to that portion of my testimony which concerns analysis of the potential economic effects of the Caribbean Basin Initiative for the region, and also for the United States. The key provisions of the initiative are: First of all, duty-free entry into the U.S. market for 12 years, with exceptions for textile and apparel and limitations for sugar; the 5-year application of the investment tax credit; and substantial concessional assistance.

The concessional assistance, I think it should be noted, is relatively high compared with the global economic aid that we are giving, and those who oppose the present package on the ground that it should have more economic assistance I think must tell the committee where the funds for the additional economic assistance are to come from. If it is implied that they should be obtained from further reductions in other efforts, such as IDA, then I think that would be doubtful.

The most important element of the package is its combined instruments of tax credits for investment and the free trade opening. I think it is important to recognize that a 12-year guarantee of duty-free access to the U.S. market is much more of an incentive to invest than the past GSP package. It provides a longer period of certainty and it does not have the limitations that are in the other GSP package which could discourage investment. It would seem to me that when this free trade action is considered in conjunction with the investment tax credit, you would have a strong incentive to investment in the region.

I have tried to outline what might be the economic consequences of this incentive. The best guide that I could think of was the investment incentive that resulted from the formation of the Central American Common Market in the 1960's, which was similar in many regards. It represented a wider market and that is basically what is involved here.

Moreover, in this case the wider market is the entire U.S. market, much larger than the Central American Common Market. And there is the added factor of the investment tax credit.

In the earlier Central American Common Market experience, sample surveys have shown that the investment done by firms rose by about 20 percent as the result of the formation of the common market. It seems to me that one could, as a point of departure, suggest that similar increases in investment would be available in the case of the Caribbean Basin Initiative.

I might note that past estimates of supposed ineffectiveness of investment tax credits for the United States are not relevant for this calculation. They are not relevant primarily because substitution processes would be involved here, the focusing of incentives on the region vis-a-vis other regions. And in addition, one is talking about opening up a new market to these potential investors, whereas within the United States itself the market was fixed.

My estimates suggest that the initiative might raise investment by 20 percent, might raise the growth rates in the region by 1 percent annually, which would mean the difference in many cases between stagnation and sufficient improvement to provide hope that it might raise investment by $2 billion a year to begin with, which would be greater than capital flight, although to be sure the aid in the most directly affected countries is necessary to soften the impact of capital flight and would lead to increases of exports of perhaps $1 billion by 1985 and $4 billion by 1990, all of these in constant 1981 prices.

So I see the potential as being quite significant. The dangers for the United States, it seems to me, are very small. The increased exports that might result from this program would be less than one-third of 1 percent of U.S. imports in 1985, less than 1 percent of U.S. imports in 1990.

Indeed, perhaps the most important economic effect would be favorable to U.S. labor rather than detrimental, and that is that one should think that the package would reduce the flow of emigration to the United States.

My time is out, I see by the red light, and I would be happy to take up other points raised in the full paper in the questioning period if you so desire.

[Dr. Cline's prepared statement follows:]

PREPARED STATEMENT OF WILLIAM R. CLINE

The Caribbean Basin Initiative (CBI) represents an enlightened approach to the political economy of development in this hemisphere. It is a unique blend of some of the more positive philosophical themes of the Reagan administration, combining a reliance on private economic incentives with a real willingness to provide economic assistance in areas of special political concern to the United States. The program is a major departure from past U.S. policy. More than a decade ago the United States rejected the idea of special trade preference for Latin America, because of the global nature of U.S. responsibilities. Instead, the United States adopted a Generalized System of Preferences. Today, however, it seems to me sensible to adopt this policy departure. The acute strains on political stability in the region, and its close geographical location (in an area where missiles would be only minutes away from the United States) make it of special concern. Moreover, most of the countries in the Caribbean Basin are at relatively low income levels compared with the rest of Latin America, and there is a certain logic of "graduation" of the more advanced countries that justifies special treatment for the Caribbean Basin alone rather than inclusion of the rest of Latin America as well. It seems unlikely that a rash of future special trade relations would be likely to follow from the CBI precedent, given the greater distance and less strategic nature of the other low income regions of the world. It should be kept in mind, nevertheless, that the CBI is one more step in the direction of departure from Most Favored Nation practice. It is also fair to say that the Caribbean Basin contains two seperate areas, the Caribbean and Central America, and until now the two sub-regions have had only limited economic relations with each other. The CBI is more a political region from the U.S. standpoint than a cohesive economic region in itself.

ECONOMIC STRESS IN THE CARIBBEAN BASIN

The political instability in Central America that has prompted the CBI reflects acute economic stress in the region in recent years. After substantial growth in the range of 5 to 7 percent in the 1960's and early 1970's, economic growth has fallen sharply (table 1). Income actually fell by nearly 10 percent in each of the last two years in El Salvador, by 1.5 percent in 1981 in Guatemala, and by 25 percent in Nicaragua in 1979. Inflation has undoubtedly contributed to political instability. Most of the countries in the region have a tradition of price stability, but inflation surged in the mid-1970's as the result of external inflationary shocks in prices of oil and commodities (table 2). In 1980 higher oil prices once again hit the region, and slow world growth plus high interest rates drove down the prices of the region's commodity exports in 1981 (table 4). As a result, many of the CBI countries are experiencing severe balance of *payments problems* (table 3), and Nicaragua and Costa Rica have been forced to seek debt rescheduling.

This short run deterioration of economic conditions occurs from a base level and distribution of income that contributes to political and social unrest. In Central America, the poorest 50 percent of the population typically receive less than 15 percent of income, while the top 5 percent receive approximately one-third (table 5). Of the countries in the region, only Costa Rica and Trinidad and Tobago have high average incomes (by Latin American standards).

With fragile underlying economic conditions, deterioration in the face of shocks, and the politically destabilizing influence of a new period of inflation, it is not surprising that the latent political strains in the region have begun to erupt. Once they surfaced in Nicaragua, their outbreak in neighboring countries was to be expected. Political disturbance in turn adds to the downward spiral in economic stability. Political upheaval in Nicaragua, El Salvador, and Guatemala has caused substantial capital flight. Based on balance of payments data, capital flight from these three countries appears to have been nearly $1 billion in 1980 (table 6). Overall new investment in Central America declined by 20 percent in 1980 and probably declined further in 1981.

The downward economic spiral tends to infect all of Central America. Their economies have become highly interdependent through the Central American Common Market. Nearly one-fourth of their trade is with each other. Politically-induced depression in one or two countries tends to depress activity in other countries of the region, setting the stage for spillover in the political realm as well.

ECONOMIC EFFECTS OF THE CARIBBEAN BASIN INITIATIVE

The Caribbean Basin Initiative is designed to help halt the downward economic spiral in the region and provide the basis for renewed economic growth. Its key provisions are duty-free entry into the U.S. market for 12 years (except for textile and apparel, and with some limitations on sugar), 5-year application of the 10-percent investment tax credit, and a substantial volume of concessional assistance. Economic assistance would reach $824 million and $664 million in 1983, or approximately 10 percent of non-oil export earnings for the region. The concentration of aid is heavily on El Salvador, where aid would average approximately $200 million (or one-fourth of export earnings) in 1982 and 1983. Moreover, Mexico and Venezuela are contributing a total of approximately $1 billion annually to the region through their soft-term loans for up to 30 percent of their oil exports to the region, and Canada is increasing its concessional aid to the region.

For purposes of longer term development, however, the most interesting part of the U.S. package is the dual instrument of free trade combined with the investment tax credit. The joint impact of these measures should be to increase investment and exports in the region, improving economic growth performance.

In the short run duty-free entry would not be a major benefit for the region. Of the $4.3 billion in non-oil exports to the United States from the region in 1980, only $817 million (19 percent) was in trade that would be affected by the CBI. The rest was either in textiles and apparel that are exempted ($282 million), or in products that are duty-free already because of the Generalized System of Preferences (GSP) or because no tariff is charged for any supplier.[1]

It is not the immediate free trade benefits, but the long-run trade and investment incentives that dominate. A 12-year guarantee of duty-free entry is much more influential in investment decisions than temporary duty-free entry under GSP. The GSP will soon be up for renewal, and without the Caribbean Basin Initiative potential investors could not count on continued duty-free access. Moreover, the value limitation under GSP would disqualify a considerable amount of exports from duty-free treatment, without the new Initiative.

Once the tax credit is considered, combined with the 12-year horizon for duty-free market access, the incentive for investment is strong. It is extremely difficult to calculate how large the effects of the program might be. However, it may be useful to consider the experience of the Central American Common Market in this regard. The opening of the regional market to free trade in the 1960's spurred investment and industrial growth. Based on sample surveys of industrial firms, the presence of the wider market in the CACM stimulated investment, raising it approximately 20 percent above levels it would otherwise have reached.[2]

---

[1] Office of the U.S. Trade Representative.

It would seem that the new Caribbean Basin Initiative could increase investment by a proportion at least as large as that experienced as the result of formation of the Central American Common Market. The U.S. market is far larger than the Central American market, and the investment tax credit was not available to U.S. investors in the earlier CACM experience. If one uses the CACM experience as a guide, investment in the Basin might rise by one-fifth as the result of the CBI, or from an average of 22.4 percent of GNP to 26.9 percent.[3] Using normal relationships between investment and growth rates, the result would be an acceleration of the region's real economic growth rate by 1 percentage point annually over the next several years. The increase could make the difference between stagnation of per capita income and a rising per capita income, giving brighter prospects for social and political stability.

To place these possible effects into perspective, it is useful to note that GNP in the region is about $42 billion (at 1981 prices) and investment about $9 billion. If the analogy of the Central American Common Market is appropriate, the new stimulus to investment would raise it by approximately $2 billion annually in the early years, growing to larger levels. That would more than offset capital flight, and if political stabilization began to take hold capital flight would reverse. The consequence of investment stimulus for the region's exports would also be important. Assuming the additional output would be channeled to exports, the CBI would raise the region's exports by an estimated $1 billion by 1985 and $4 billion by 1990 (at 1981 prices) or by 10 percent in 1985 and 40 percent by 1990. Higher exports would greatly facilitate faster growth.

These estimates are solely for the purpose of establishing general magnitudes. They do indicate, however, that the benefits of the CBI could be large. The single most important caveat is that an atmosphere of political instability could overshadow the new incentives to investment. But except for El Salvador, Guatemala, and Nicaragua, the investment climate is not necessarily unstable in the region, and the concentration of concessional aid and political support in El Salvador should help address the short run problem in that country.

EFFECTS ON THE UNITED STATES

Domestic workers and firms need not fear that the CBI would cause them hardship. Textiles and apparel are exempted. Special arrangements are to be made in the case of sugar. For all other products, the United States is simply too large an elephant to be affected by the ant-sized Caribbean Basin. The estimated increase of basin exports by $1 billion in 1985 would be only one-third of one percent of U.S. imports in that year, and the projected increase of $4 billion in imports by 1990 would be only 1 percent of U.S. imports (in 1981 prices). Increased U.S. exports to the region would follow direct investment and higher income, creating new export jobs to offset any jobs lost to imports. Moreover, the normal safeguard provisions of U.S. trade law would provide a safety net for any specific sectors in which increased imports might be concentrated. Furthermore, the CBI has special provisions to ensure that Puerto Rico and the Virgin Islands are not adversely affected.

The largest single impact of the CBI on the U.S. economy would probably be a significant reduction in the pressure of immigration. The resulting upward tendency in U.S. wages would probably confer induced benefits for American labor that would well exceed any losses incurred in the process of adjusting to increased imports from the region.

CONCLUSION

The Caribbean Basin Initiative deserves the support of the U.S. Congress. It will not solve all of the problems of the region. But it has a good chance of making a significant contribution toward halting the downward economic spiral in the region, firming up the economic underpinnings necessary for renewed political stability. The massive recent voter turnouts in Guatemala and El Salvador suggest that the majority of the population do not support the armed rebellion. They deserve the help proposed by the Reagan administration to increase the likelihood that their countries will be able to withstand the forces of armed rebellion. Some have accused the administration of naively blaming outside powers for unrest that stems from internal causes. The CBI represents a clear recognition by the administration that the domestic economic causes of political instability must be addressed. This unique program, consistent with the earlier tradition of the Alliance for Progress but emphasizing longer term investment rather than concessional aid, deserves support.

---

[2] William R. Cline and Enrique Delgado, "Economic Integration in Central America" (Washington, D.C.: 1978), p. 105.

[3] Calculated from World Bank, "World Development Report 1981."

TABLE 1.—ECONOMIC GROWTH

[Percentage average]

	1969–70	1970–78	1979	1980	1981
Costa Rica	6.5	6.0	4.9	1.2	−1.5
El Salvador	5.9	5.2	−1.6	−9.0	−9.5
Guatemala	5.6	6.0	4.5	3.4	1.0
Honduras	5.1	3.3	6.8	1.3	.5
Nicaragua	7.2	5.8	−25.1	10.7	6.0
Panama	7.8	3.4	5.7	4.9	4.5
Dominican Republic	4.5	7.4	4.8	5.2	3.5
Haiti	.1	3.9	4.7	5.2	−3.0
Jamaica	4.6	−.8	(1)	(1)	(1)
Trinidad and Tobago	3.9	3.4	(1)	(1)	(1)

[1] Not available.

Source: World Bank, "World Development Report 1980;" U.N., CEPAL, "Balance Preliminar de la Economia Latinoamericana durante 1981."

TABLE 2.—INFLATION

[Annual percentage, average]

	1960–70	1970–78	1979 [1]	1980 [1]	1981 [1]
Costa Rica	1.9	15.7	13.2	17.8	48.5
El Salvador	.5	10.3	14.8	18.6	13.3
Guatemala	.1	10.8	13.7	9.1	10.2
Honduras	3.0	8.0	18.9	15.0	9.9
Nicaragua	1.9	11.0	70.3	24.8	26.8
Panama	1.6	7.5	10.0	14.4	5.6
Dominican Republic	2.1	8.6	26.2	4.2	6.6
Haiti	4.1	12.2	15.4	15.3	18.7
Jamaica	3.8	16.9	19.8	28.6	9.3
Trinidad and Tobago	3.2	21.3	19.5	16.6	13.8

[1] December to December.

Source: World Bank, "World Development Report 1981," and U.N. CEPAL, "Balance Preliminar de la Economia Latinoamericana durante 1981."

TABLE 3.—EXPORTS, CURRENT ACCOUNTS, AND EXTERNAL DEBT

[In millions of dollars]

Countries	Exports, 1981	External debt, 1981	Current account balance 1980	Current account balance 1981
Costa Rica	1,090	2,500	−653	−460
El Salvador	790	1,000	−95	−225
Guatemala	1,460	1,200	−164	−250
Honduras	820	1,500	−334	−300
Nicaragua	500	2,000	−448	−430
Dominican Republic	1,190	1,800	−803	−505
Haiti	170	350	−132	−185
Jamaica	1,050	1,800	−190	−380

TABLE 4.—PRICES OF PRINCIPAL EXPORTS

	1978	1979	1980	1981
Bananas (cents per pound)	13.00	14.77	17.01	17.63
Bauxite (dollars per ton)	138.42	152.60	212.45	216.33
Coffee (cents per pound)	185.20	183.40	178.83	128.09
Cotton (cents per pound)	57.60	62.10	81.30	72.02
Sugar (cents per pound)	7.81	9.65	28.59	16.89

Source: "International Financial Statistics," March 1982, p. 54.

TABLE 5.—LEVEL AND DISTRIBUTION OF INCOME

	Per-capita income (1979 dollars)	Share of—			
		Poorest 50 percent	Next 30 percent	Next 15 percent	Top 5 percent
Costa Rica	1,820	18	26	27	29
El Salvador	670	16	24	33	27
Guatemala	1,020	13	24	28	35
Honduras	530	13	24	30	33
Nicaragua	660	15	25	32	28
Panama	1,400				
Dominican Republic	990				
Jamaica	1,260				

Source: World Bank, "World Development Report," 1980; and Clark W. Reynolds, Employment Problems of Export Economies in a Common Market: The Case of Central America, in W. R. Cline and E. Delgado, editors, "Economic Integration in Central America" (Washington ,D.C.: Brookings Institution, 1978), p. 243.

TABLE 6.—CAPITAL FLIGHT

[In millions of dollars][1]

Countries: Year	Short-term capital	Errors and omissions	Sum	Percentage of imports
El Salvador:				
1979	−107	−214	−321	12.4
1980	−107	−209	−316	13.0
Guatemala:				
1979	−44	−30	−74	4.9
1980	−316	−24	−340	22.3
1981	[2] −430	[2] −26	[2] −456	27.0
Nicaragua:				
1978	−188	−10	−198	33.2
1979	−258	−10	−268	74.4
Total 1980	−681	−245	−926	21.5

[1] For Costa Rica and Honduras, the sum of short-term capital and errors and omissions were positive in 1979 and 1980, indicating no capital flight. Assumes same level in Nicaragua as in 1979.

[2] Estimates.

Source: "International Financial Statistics," March 1982.

APPENDIX

NOTES ON ECONOMIC ASSUMPTIONS

A. Impact of the investment tax credit

Critics of the investment tax credit contend that it has increased U.S. investment little, perhaps by less than the tax loss. Whatever the size of the tax credit's impact on U.S. investment, the proportionate effect should be much larger for the Caribbean Basin. In the case of the U.S. domestic tax credit, the principal effect is on profitability. Essentially, the tax credit lowers production cost, calling forth some increase in supply generally. But in the case of the Caribbean Basin, there would be an important additional effect: substitution. For a small area, the credit opens the possibility of relocating investment that otherwise would have been located elsewhere overseas or in the United States. Because the universe of areas from which such investment could be substituted is large relative to the area to which it would be substituted (the Caribbean Basin), one would expect the substitution effect to be large relative to existing investment in the area.

Similarly, those who argue that numerous tax incentives already exist in the region miss an important point. The presence of tax holidays, and tax deferrals, confers a future reduction in taxes that otherwise would be collected upon profitable operation. But the investment tax credit immediately confers on the firm a direct benefit equal to 10 percent of investment. This benefit is additional to all other benefits.

B. Assumption on investment response

This testimony attempts to examine the investment response to the CBI by analogy with the size of the investment stimulus attributable to the formation of the Central American Common Market (CACM). To determine whether this assumption is plausible, consider the following:

Let I_{CACM} be the increased investment stimulated by formation of the CACM and I_{CBI} be the increase in investment caused by the Caribbean Basin Initiative. Let t_c be the average tariff in Central America before the CACM. Let $t_U{}^e$ be the expected average tariff in the U.S. market facing the region in the 1980's in the absence of the CBI, taking into account the effect of GSP. The MFN tariff rate might average 7 percent (excluding textiles and apparel). The proportion of duty-free trade might be 50 percent, assuming somewhat tighter GSP provisions in the renewal (if any) and taking into account the likely growth of export values to ceilings at which duty-free entry terminates. Thus, $t_U{}^e$ might be (.5) (7 percent) = 3.5 percent.

The incentive to invest as a result of the CACM was determined by the size of the tariff wall and the size of the regional market:

(1) $I_{CACM}=f(t_c{}^{Y}{}_{CACM}, R_{CACM})$ where Y_{CACM} is regional income and R_{CACM} is a risk factor.

The incentive to invest under the CBI depends on: (a) the size of the U.S. market multiplied by the expected tariff without the CBI; (b) the investment tax credit, C_{CBI}; and (c) a risk factor, R_{CBI}:

(2) $I_{CBI}=f(t_U{}^eY_U, C_{CBI}, R_{CBI})$ where Y_U is U.S. income.

Over the coming decade, risk factor R_{CBI} should be about equivalent to R_{CACM} in the 1960's, considering the Caribbean Basin as a whole. Assume that the 10 percent investment tax credit increases profitability by perhaps 30 percent (for example, out of a product price of 100, labor and raw materials cost 42.5, capital costs 42.5, and economic profit is 15, so that a 10 percent decrease in capital costs—4.25—raises profits by about 30 percent). Assume further that, considering the possibilities of locational substitution, the elasticity of investment supply with respect to profit rate is unitary.

Under these assumptions, and with a Central American tariff of approximately 30 percent in the early 1960's (Cline and Delgado, p. 80), the relationship of I_{CBI} to I_{CACM} would be:

$$(3)\qquad \frac{I_{CBI}}{I_{CACM}} = \frac{(t_U{}^{\bullet}Y_U)\ (1.3)}{t_C Y_{CACM}} = \frac{[.035]\ [3{,}000]\ [1.3]}{[.30]\ [40]} = 11.4.$$

For purposes of broad magnitudes current U.S. income is $3 trillion and income in the Caribbean Basin is $40 billion. (The final term in the numerator indicates that investment would rise by 30 percent in response to a rise of 30 percent in profitability.)

Equation 3 states that the expected investment impact of the CBI would be more than eleven times as great as that from the establishment of the CACM. Basically, the extremely large size of the U.S. economy relative to the Caribbean Basin economy swamps the fact that the expected level of protection in the United States is much lower than the CACM tariff wall; and the increase in profitability from the investment tax credit adds a further boost.

The assumption used in this testimony is that investment in the CBI would rise by an amount comparable to that in the experience of the formation of the CACM (that is: a ratio of only 1.0 in equation 3). Accordingly, the estimates of this testimony would seem conservative.

The CHAIRMAN. Thank you very much indeed, Dr. Cline.

Our final anchor witness is Dr. Richard Newfarmer of the Overseas Development Council, who has been conducting economic analyses of the CBI's impact on the Caribbean Basin economies. We would like very much to have the results of your conclusions.

Mr. NEWFARMER. Thank you, Senator.

The CHAIRMAN. By the way, I turned off the lights because I saw no one operating the cameras, and I testified yesterday before the Energy Committee on energy conservation. It seemed unnecessary and wasteful to have those lights going, and perhaps it was also getting hot.

[Biographical sketch of Richard E. Feinberg and Richard S. Newfarmer follows:]

BIOGRAPHICAL SKETCH OF RICHARD E. FEINBERG AND RICHARD S. NEWFARMER

Richard E. Feinberg is a visiting Fellow at the Overseas Development Council and an International Affairs Fellow at the Council on Foreign Relations. He served as the Latin American and Caribbean specialist on the Policy Planning Staff of the State Department from May 1977 until January 1980. From September 1975, until May 1977, he worked in the international division of the Treasury Department. He holds a Ph. D. in economics from Stanford University, and is now adjunct professor in the Landegger Program of International Business Diplomacy at Georgetown University. His recent publications include "Central America: No Easy Answers," Foreign Affairs, summer, 1981; "Central America: The View from Moscow," The Washington Quarterly, spring, 1982; and (editor) Central America: International Dimensions of the Crisis (Holmes and Meier, 1982).

Richard S. Newfarmer is an Assistant Professor of Economics at the University of Notre Dame. He is currently on leave from Notre Dame to the Overseas Development Council where he is the Eugene R. Black Fellow. He has a Ph. D. in Development from the University of Wisconsin, 1977. He has served as a consultant to USAID and to the U.S. Senate Subcommittee on Multinational Corporation of the Senate Foreign Relations Committee (1973–75). He has also been a consultant for the United Nations Conference on Trade and Development, (1977) and the United Nations Center for Transnationals. He has published various articles in such journals as World Development, Journal of Development Economics, Journal of Development Studies and Cambridge Journal of Economics.

STATEMENT OF DR. RICHARD S. NEWFARMER, OVERSEAS DEVELOPMENT COUNCIL, WASHINGTON, D.C.

Mr. NEWFARMER. I want to thank you for the opportunity to testify here. My name is Richard Newfarmer and I am on leave from the University of Notre Dame, where I teach economics, to the Overseas Development Council here in Washington.

The administration has presented in the Caribbean Basin Initiative a comprehensive set of proposals for the region. They deserve our serious consideration.

The first part of our written statement analyzes the compatibility of the political and economic strategies of the administration, speaking to some of Senator Dodd's concerns. However, in the interest of time let me move directly to the economic impact of the Caribbean Basin Initiative, because I think here I would depart with my fellow witness, Mr. Cline, on some of the estimated economic impacts on the region.

The CBI is not envisioned as a Marshall plan for the Caribbean. However, the World Bank calculates that the region will need slightly more than $4 billion in 1982 in external financing and probably more in 1983. It is an important question that you ask, Senator Percy, when you ask what is the total contribution of the CBI as a package toward the total resource needs of the region?

To answer this, we looked at the trade and investment components of the package. Consider first the trade components. I invite you to look at table 1 of our written statement. In that table we summarize the current trade picture.

The table is divided into two parts, the products currently entering the United States duty free, comprising some 87 percent of trade from the region into the United States; and second, the dutiable portion, which amounts to about 13 percent, the portion that would be applicable to the free trade area.

However, the first three categories in this section, embodying most importantly textiles, are to be excluded from the Caribbean Basin Initiative, leaving only as a base the products eligible for the free trade area, about $469 million. This is a base number. In addition, there will be a portion of GSP exclusions that will come back in for reasons discussed in my written statement, their impact will be fairly small.

Therefore, the base upon which trade can expand from the region coming into the United States is rather small. The question then becomes, when tariffs are lowered for these products, how much new trade will be produced? The answer at least partially is addressed in table 2.

This table lists the 15 most important products, including the $469 million, coming into the United States. These 15 products together account for 90 percent of that trade. The important matter here is the bottom line of the table, "Total All Free Trade Area" effect. We have estimated here what the $469 million would produce in the way of new trade.

You can see, reading across that line, that we anticipate somewhere between $44 and $87 million of new trade generated on that $469 million base. As you can see, this would amount to about 0.4 percent or 0.9 percent of trade from the region.

These numbers, of course, are estimates and are based on several assumptions. But they come out broadly close to the kinds of numbers and magnitudes that Professor Fishlow was alluding to earlier.

The free trade area is not the only trade measure embodied in the CBI. Changes in textiles, sugar, and value added requirements also will increase the region's exports. The total, including the free trade area and all the other changes, will according to our estimates probably amount to about $250 million in new trade for the region (table 3). Under the most favorable assumptions, then, the Caribbean Basin Initiative as a whole can be expected to increase the region's exports by only 2.5 percent over the 1980 level.

Let me turn for a moment to the investment tax credit. The U.S. Treasury estimates that about $450 million is currently being invested in the region in new plant and equipment. This suggests that the total tax cost to the U.S. Treasury will be on the order of $40 million.

The question is, how much new investment will this $40 million actually generate because of the investment tax credit. The answer is no one really knows.

We have looked at the domestic tax credit, which shows that for every dollar invested, that is given up in tax revenues, it produced only 76 cents in new investment. Now, I grant Professor Cline's point that this ignores substitution effects. These would undoubtedly produce a somewhat stronger result. But there are other factors in the case of the Central American area, such as the heightened risk due to the political situation which work in the opposite direction; namely to dilute the effectiveness of this measure.

Nevertheless, if this 76-percent figure actually held up, the tax cost to the Treasury of about $40 million will produce only $30 million of new investment. In our view, to avoid the uncertainty of investor response it is more efficient to channel the $40 million directly to private sector growth in the area through the International Finance Corporation of the World Bank or the Private Enterprise Bureau of AID. This would both stimulate private sector development in the region and monitor the funds to make sure that they actually had a developmental impact.

Moreover, it is a clear mistake to project estimates on the basis of the experience of the Central American Common Market. Import-substitution, where firms produce for an "empty market" is much easier than export promotion, where firms must compete in price with established enterprises.

In conclusion, let me say that adding these components of the Caribbean basin initiative together, we find $250 million in new trade, $30 million in new investment; added to the $350 million supplemental, produces a total package of about $630 million—well short of the $4 billion the region will actually need.

This means that the major financier for the region will have to be the multilateral institutions, particularly the IMF, the World Bank, and the IDB. It also means that the private sectors of the region can begin to lead growth only after tensions in the region are reduced, requiring a fundamental change in U.S. political strategy.

I would be happy to answer any of your questions, Senator.

[Dr. Newfarmer's prepared statement follows:]

PREPARED STATEMENT OF RICHARD S. NEWFARMER AND RICHARD E. FEINBERG

Mr. Chairman, we are pleased to have been invited to offer our views on the Administration's proposed Caribbean Basin Initiative. The views presented here are our own and should not necessarily be attributed to any of the institutions with which we are affiliated.[1]

The Reagan Administration has presented a comprehensive set of proposals for helping the nations of Central America and the Caribbean overcome their deep-seated economic problems. The Caribbean Basin Initiative (CBI) sets forth a comprehensive set of self-reinforcing programs that include increased financial aid and incentives for trade and investment. It is the first major U.S. economic program aimed specifically at the Latin American region since the Alliance for Progress in the early 1960s. We believe that the Administration's proposals deserve serious consideration.

We have attempted to estimate the quantitative impact that the CBI will have in the region. First, however, we would like to make some general comments about the Administration's overarching policies toward the Caribbean Basin, since the CBI is part of a broader political strategy towards the region.

THE ECONOMIC RESPONSE TO POLITICAL PROBLEMS

The concept of a "Caribbean Basin" is in many ways artificial. Central America differs from most of the Caribbean islands in culture, economic structure and, most importantly, in political institutions. In the Dominican Republic and much of the English-speaking Caribbean, relatively stable and democratic structures already exist. Since the negotiation of the Panama Canal Treaty and the removal of this historic irritant in U.S.-Panamanian relations, Panama too has enjoyed stability and economic prosperity. The Caribbean Basin Initiative (CBI) has a better chance of success on the Caribbean islands and Panama, where the requisite political stability exists.

---

[1] We wish to thank Donald Rousslang of the U.S. Department of Labor for his help in refining the quantitative section.

In middle Central America, however, the political status quo has been challenged by powerful insurgencies, and violence and chaos are tearing at the foundation of society. At bottom, the Administration is more concerned about the political turmoil and economic decline in Central America than about the Caribbean islands. This priority is reflected in the fact that $243 million of the $350 million of the proposed emergency supplemental assistance package is earmarked for Central America.

In Central America, the Administration's economic and political strategies have been working at cross purposes. The Administration's economic plan aims to stimulate business, but a confrontationist diplomacy threatens to delay the restoration of investor confidence. Rather than seriously pursue negotiation among all the major parties to the conflict in El Salvador, the Administration has hoped to exclude important sectors from the political process and to defeat them militarily. Rather than working to iron out major disagreements with Nicaragua, the Administration has resorted to a policy of verbal threats, and, according to media reports, perhaps even paramilitary covert action. Rather than seeking to isolate Honduras from conflict, the Administration proposes to increase military aid, lengthen air strips to handle large military cargo planes, and take actions which may plunge this fragile, imperfect democracy into war. By heightening political conflict the United States threatens to inflict deeper wounds on already badly mangled economies.

In response to the recent Peace Initiative of Mexico President Jose Lopez Portillo, the Administration has showed some renewed interest in negotiations. These efforts deserve commendation because the path of negotiated settlement offers the best hope of reinstating a political climate in which economic growth can occur. However, unless the Administration fully commits itself to this new path with a willingness to compromise, negotiations are unlikely to bear fruit. In that case, the violence will escalate, and the economies of Central America will continue to decline sharply.

Fearing that political strife will continue and even worsen, frightened Central American businessmen are stashing their savings in Florida's banks and condominium market. Because capital flight often occurs through illegal channels, it is not possible to measure its magnitude exactly. One study sponsored by AID estimated capital flight during 1979 and 1980 to have surpassed $500 million. The investment climate in Central America has certainly deteriorated since then. Informed observers believe that capital flight from El Salvador alone has reached $500 million per year.

The investment climate has been so bad in Central America that even U.S. Government agencies have hesitated to commit their own resources there. The Overseas Private Investment Corporation (OPIC) is virtually closed for business in El Salvador, Guatemala and Nicaragua, and has only been considering relatively small projects in Honduras and Costa Rica. The proposed changes contained in the CBI will allow for a greater OPIC involvement in the region, but its activities will still be constrained by its own risk criteria.

The Export-Import Bank (Eximbank) has also been unwilling to undertake major new exposures in Central America. It is noteworthy that, according to the language in the legislative package the Administration sent to Congress, the Eximbank promises to expand its activity in the Caribbean Basin only "where its lending criteria allow."

The multilateral development banks, while increasing lending in unprecedented amounts to the Caribbean islands, have been unresponsive so far to the Administration's appeals for sharply increased lending to Central America. Some member governments and staff in the World Bank and the Inter-American Development Bank doubt that investment projects can be safely and efficiently implemented amid political chaos. The World Bank has stopped approving loans for El Salvador.

In the absence of peaceful resolutions to political conflicts within and between nations, private capital will continue to flee Central America. Without investor confidence, two of the three prongs of the CBI—investment incentives and trade opportunities—will be irrelevant to Central America. The remaining prong—official aid—will in large measure be devoted to maintaining consumption levels and indirectly to purchase weapons. Investment planning and implementation, whether by the public or private sector, cannot proceed safely and efficiently in an environment of political turmoil.

AN ABSENCE OF MULTILATERALISM

The Administration's diplomacy of confrontation has also prevented the realization of a truly multilateral Caribbean Basin Initiative. The Administration has been consulting with Canada, Mexico, Venezuela and Colombia. It has not, however, been willing to make the political compromises necessary to permit the elaboration of a cooperative and integrated approach to the region's economic problems. Each donor nation is pursuing its own development programs, largely as if the CBI had never been announced. As a result of its uncompromising diplomacy, the Administration is actually working at cross purposes from other donors. Mexico, for example, has been concentrating substantial resources in Nicaragua. The United States has suspended some bilateral assistance programs and has been seeking to reduce Nicaragua's access to the multilateral development banks.

A genuinely multinational framework, based on a common political vision, would have several economic advantages. A multilateral mechanism would allow for a more efficient coordination of scarce resources. It would make other donors feel it in their interests to match the contributions made by others, thereby sharing the aid burden more widely. Moreover, multilateralism provides mechanisms for the transfer of aid resources without the political tensions and resentments that accompany bilateral programs. The Caribbean Group for Economic Cooperation and Development has, since 1977, provided such a multilateral vehicle for aid to the insular Caribbean. The Administration's uncompromising bilateral and hardline diplomacy has impeded the formation of a similar group for Central America.

Administration officials have indicated that Cuba, Nicaragua and Grenada may be excluded, not only from bilateral aid, but also from trade and investment incentives. Such an exclusionary policy would be counterproductive for four reasons. First, rather than adopting more moderate policies, excluded governments are likely to react with a defiant nationalism. Conversely, nations which participate actively in our economy are less likely to seek or maintain relations with countries hostile to us. Second, the heightened tensions between the United States and the excluded States will have negative repercussions on economies in other countries. For example, conflict between the United States and Nicaragua will adversely affect the economies of Costa Rica and Honduras. Third, by excluding Nicaragua and Grenada, the United States would seem to be attacking existing regional institutions. Yet, the reverse policy, of seeking to strengthen the ties between Nicaragua and the Central American Common Market, and between Grenada and the Caribbean Common Market, would be more likely to moderate those two governments. Finally, it has generally been U.S. policy throughout the post-war period to insulate international markets from politics. We object when other countries use trade or finance for coersive purposes. Our arguments lose force when the United States itself repeatedly violates them.

We are concerned, therefore, that the Administration's confrontationist diplomacy and uncompromising bilateralism will distort and even undermine the otherwise laudable Caribbean Basin Initiative.

ECONOMIC CONSEQUENCES OF THE CBI

The separate components of the CBI package—trade, investment, and concessional aid—are intended to generate new resources in the form of foreign exchange as well as new employment and production. In the three sections that follow we present detailed estimates of the additional foreign exchange generated by each component of the CBI. This will allow us to match the anticipated benefits against the resources needs of the region.

The Administration has not yet made such estimates. These calculations are admittedly difficult to make and require making some assumptions. But as with domestic forecasts of, say, the size of the budget deficit or rates of economic growth, one can make informed guesses about the direction and magnitude of change. Without such quantified estimates, policymakers are left to rely solely on impressions. The Administration, with its superior access to information and staff time, should rightfully present this analysis with its own assumption. We hope that our preliminary finding will trigger a more systematic response from the Administration.

Free trade area and changes in quotas

One of the most innovative components of the development package is the Free Trade Area (FTA). The one-way free trade area means that the United States will remove its tariffs on products originating in the Caribbean Basin. Textiles and sugar, however, are exempt from the FTA, and they are to be treated separately.

The Free Trade Area.—The FTA has been heralded as the "centerpiece" of the CBI. Indeed, trade liberalization is potentially the most important development instrument at the disposal of the Administration. Development economists have long contended that trade is a much more important stimulus to sustained growth in most poor countries than development assistance. Coming at a time of rising demands for protectionism, the FTA is a positive step—albeit small—in the direction of a more accessible U.S. market for developing countries.

The FTA is a violation of the principle of nondiscrimination in global trade long held by the United States and embodied in the General Agreement on Trade and Tariffs (GATT). It would certainly not be in the interests of the United States for the world to be carved up into trading blocs and for international trade and investment to become more politicized. However, the relative economic insignificance of the FTA-included states, the depth of the current economic crisis in the area, and the uniqueness of their geography taken in light of the limited duration of the FTA make an arguable case for this departure. In applying for the required waiver from GATT, the United States should make it clear that this departure from Most Favored Nation (MFN) treatment will not be extended to other countries or regions and that the exemption will last for only the 12 years requested.

The FTA, in reality, will affect only slightly more than 5 percent of the region's total exports to the United States (Table 1). As the President mentioned in his formal announcement of the CBI before the Organization of American States, 87 percent of the region's exports into the United States already enter duty free. These exports include petroleum, products covered by the Generalized System of Preferences (GSP), and other goods, mainly agricultural products not produced in quantity in the United States.

TABLE 1.—CARIBBEAN BASIN EXPORTS TO THE UNITED STATES, 1980: PERCENT AFFECTED BY THE FREE TRADE AREA

Category	Value (millions)	Percent
Currently duty free	$8, 918	87
Oil and petroleum [1]	6, 039	59
GSP	552	5
Other (coffee, tropical fruits, etc.)	2, 327	23
Dutiable	1, 282	13
Textiles	282	3
GSP exclusion—Value added	182	2
GSP exclusion—Competitive need	349	3
Products eligible for free trade area [2]	469	5
Total	10, 205	100

[1] Petroleum imports were admitted duty free for the 1st half of 1980 and later made dutiable. The administration apparently does not intend to include petroleum in the free trade area.

[2] Because of the lowering of the value-added criteria in GSP from 35 to 25 percent and the removal of the "competitive need test, some portion of these 2 categories will also be eligible.

Source: U.S. Department of Commerce.

Some categories of goods that are now "dutiable" will not be granted free entry under the CBI. These include textiles, products not eligible for GSP because their value-added in the CBI country of origin is too low, and products not eligible for GSP because the country exports more than is allowed under the legislation (most of this category is sugar exports). The remaining 5 percent of the region's exports—$460 million in 1980—will be eligible for the Free Trade Area.

The exclusion of textiles from the program is particularly lamentable because this industry holds the greatest opportunity for expanding exports and *creating* jobs in the Caribbean. Some products now excluded from GSP because less than 35 percent of their value originates in the Caribbean may be made eligible for the FTA because the value-added criterion will be lowered to 25 percent. It is not possible to know how much of the $182 million will be affected by this change. Also, about $49 million of $349 million of GSP exclusions due to competitive need will be eligible; the remaining $300 million is sugar, to be treated with quotas (discussed below).

The economic impact of the FTA upon the region will depend on two things: How much more consumers buy of the imported product because prices fall and the goods are cheaper, and, how much more consumers buy of the imported product from the region favored with a price advantage and shift away from similar imported goods produced elsewhere. The total amount of new trade generated for the CBI countries therefore depends upon how high the original tariff was prior to cutting, the responsiveness of consumers to changes in prices, and the shift of consumer purchases into CBI imports at the expense of other imports.

Predicting these changes is always hazardous. Perhaps the largest unknown is the capacity of the CBI economies to expand their exports in response to new demand. Also, the effects of cutting tariffs have to be distinguished from other economic forces, such as upturns in growth of the U.S. or international economy. These latter effects are of course not considered since we wish to analyze the affects attributable purely to the CBI. Historical experience with other tariff cuts allows us to make some informed estimates of the general magnitude of the probable effects upon CBI exports, "holding constant" the impact of the international economy.

We analyzed the largest 15 products eligible for the FTA. These accounted for $420 or 90 percent of the total (Table 2). For each product, we estimated the effects of eliminating the U.S. tariff upon consumers' purchases of the product in response to the lower prices. The amount of new net U.S. demand created for the region's products is surprisingly small, $23 million or about .2 percent of 1980 exports.

TABLE 2.—ESTIMATED TRADE INCREASES FROM CBI [1]

[In U.S. millions]

Product description	Current duty (percent)	Imports 1980 (millions)	Estimated trade increases		
			New U.S. imports (millions)	New CBI exports assumption [2]	
				A	B
Beef and veal	2	$222	$1.74	$6.09	$14.80
Electronic tubes [3]	5	59	1.41	4.21	9.83
Capacitors [3]	9	28	1.16	3.47	8.09
Cigars	9	25	2.35	4.42	8.55
Resistors [3]	5	18	.43	1.29	3.00
Benzenoid drugs [3]	12	14	2.48	3.98	6.98
Analgesics [3]	12	13	2.30	3.69	6.48
Leather handbags	10	9	3.27	4.09	5.73
Scrap tobacco	16	9	1.42	2.66	5.14
Pineapple	5	5	.01	.33	.81
Iron and steel pipes	1	4	.04	.08	.16
Wrapper tobacco	10	4	.42	.78	1.51
Luggage [3]	19	4	2.56	3.19	4.47
Footwear [3]	8	3	.89	1.11	1.56
Tobacco, other	11	3	.34	.64	1.23
Total, 15 products		420	20.88	40.02	78.32
Total, all FTA [4]		469	23.20	44.47	87.02
CBI trade as percent of 1980 trade			0.2	0.4	0.9

[1] Ad valorum equivalent duty rates calculated on Caribbean Basin dutiable value.

[2] Assumption "A" assumes a cross-price elasticity of 1. Assumption "B" assumes a cross-price elasticity of 3.

[3] A large component of this product is imported under 806.3/807 of the tariff code, contributing to some overstatement of the trade effects (appendix A).

[4] Projected on the basis as the largest 15 products.

Source: Calculated from U.S. Department of Commerce data. See appendix A for methodology.

The reason for this is that for many of these products, tariff levels are not high, and consumers are not particularly responsive to price changes.

The $23 million is only the new net U.S. demand created for imports. The region will also benefit from consumers shifting from already imported products to those imported from the region. This response will vary widely. For undifferentiated products where brand names are unimportant, such as beef, handbags and scrap tobacco, the effect could be large, limited only by the capacity of the exporting countries to expand their production. For other products, such as differentiated brand names, certain consumer goods (e.g., cigars) and 806.3 and 807 products, the effects are likely to be somewhat less. Consumers with an attachment to branded products are less inclined to substitute products in response to a price change. In the case of 806.3 and 807 products, multinational firms may have to shut down a production unit in Mexico or the Far East and shift facilities into the Basin in order to take advantage of the FTA. The effects on these firms will probably be minimal in the short run; they will be large in the long run only if the newly created price differentials more than offset the costs of shutting down operations abroad.

In the absence of experience on which to base estimates of consumer shifts among import sources in response to price changes we present two different assumptions in Table 2, one small and one large. Even relatively large consumer shifts to CBI country products, however, would generate additional exports of less than $100 million, about 1 percent of the region's 1980 exports.

In the first year, it is our judgment that the amount of new exports created by the Free Trade Area is unlikely to exceed about $40 million. Even if newly created demand were to exceed that amount, expansion in many product exports would be constrained by existing capacity limits. One might expect, however, any large increases in the small base, leading to as much as, say, $100 million in the third and future years.

Changes in Quota Restrictions.—The Free Trade Area is only one element in the Administration's trade package. A potentially more important change in the short run is in the textile quotas and expansion of sugar quotas for some countries. In textiles, four countries—Haiti, the Dominican Republic, Costa Rica, and Jamaica—have restrictive bilateral agreements that currently cover exports to the United States. The Administration has announced intentions of gradually allocating to the CBI countries a portion of the quota now held by the Far Eastern textile suppliers under the Multi-Fiber Arrangement (MFA). This process will probably be slow and be constrained to the volume increase normally contained in the quota.

In sugar, the 1982 Administration-supported farm bill raised nominal protection on imports by 225 percent at the same time domestic price supports on sugar were raised. This depressed imports from countries not eligible for GSP privileges (i.e. those with more than the threshold level of exports, currently at $46 million). To mitigate the impact on the CBI sugar exports, the Administration intends to give partial exemption from duties and import fees, and establish quotas for the region's three principal suppliers, the Dominican Republic, Guatemala, and Panama. The new quotas will be roughly 10 percent higher than existing imports, amounting to 780,000 metric tons for the Dominican Republic, 220,000 metric tons for Guatemala, and 160,000 metric tons for Panama. Small producers in the region already have tariff-free access to the U.S. market under GSP. The increased share of the Dominican Republic, Guatemala, and Panama will almost certainly reduce the share held by other major producers in Latin America, such as Brazil and Peru.

Finally, two other trade effects are of some minor consequence: the easing of the GSP requirement to qualify for duty-free entry from 35 percent of the value of the product that must originate in the source country to 25 percent. Also, some products of minor importance (aside from sugar) are not eligible for GSP because the countries supply more than 50 percent of U.S. imports (the "competitive need" test); these products will be permitted free access. These changes may produce another $32 million of new exports.

The total effects of the trade measures, including the Free Trade Area and the changes in textiles, sugar and other categories are estimated in Table 3. We have assumed that all the trade effects of the FTA will be felt in the first 3 years of the CBI. (New growth, of course, will continue to occur but this will be because of the natural growth in the U.S. market, not attributable to the tariff cuts.) The capacity of the CBI countries to respond to increases in demand may limit actual production increases to much lower levels.

TABLE 3.—ESTIMATED PROJECTED VALUE OF EXPORT INCREASES:[1] BY TRADE CATEGORY

[1980 millions]

	1st yr	2d yr	Future year
FTA[2]	$40	$70	$100
Textiles[2]	15	30	30
Sugar[3]	40	80	80
Nonsugar GSP (CN)[4]	4	7	11
GSP (VA)[5]	9	15	21
Total, trade increase	108	202	242
Percent of 1980 total	1	2	2.4

[1] All increases are relative to year prior to the initiation of the CBI.

[2] From table 2 and text; 2d and future years' effects are assumed greater due to lagged consumer shifts and shifts in 806.3/807 products, reaching a maximum in the 3d year.

[3] Five percent increase in both 1st and 2d year are due to changes in quotas.

[4] Base is $50,000,000 (see text); assumed same rate of increase as other FTA products.

[5] 1980 value equals $182,000,000; assumes $100,000,000 is eligible under new 25 percent value-added rule, and same rate of increase as other products in FTA.

Source: Estimated from U.S. Department of Commerce data.

Three conclusions can be drawn from the table. First, the changes in the textile and sugar trade in the near term will account for about as much as the Free Trade Area. In future years, the FTA should account for a growing proportion. Second, the total effects of the trade package in the first year will probably not amount to much more than 1 percent of the region's 1980 total exports, though in future years it should be larger. Even by the third year, the increases will probably not amount to 3 percent of the region's 1980 exports.

Finally, these changes in trade regulations will probably have much less effect than would renewed U.S. domestic growth. An acceleration in the U.S. growth rate of from zero to three percent per year would probably generate over $300 million in new export earnings for the region. Or consider the effects of lowered U.S. interest rates. Debt service not infrequently absorbs from 15–25 percent of exports earnings of CBI countries. If interest rates were to fall by five percentage points on the debt of $5.4 million owed to private creditors (as of December 31, 1980), interest payments would be reduced by more than $250 million. In the coming years, even if the CBI is tremendously successful, economic growth in the United States based upon a sound monetary and fiscal policy will probably have a far greater impact on the region's welfare.

In summary, the Free Trade Area merits qualified support, even though its effects will probably be modest. It provides an opportunity for the region to increase in small measure its domestic employment, export earnings and growth. However, its success hinges upon a significant Administration turn towards the politics of negotiation and inclusion. Discrimination against Nicaragua and other countries of the region because of their current politics heightens the tendency inherent in the program to politicize trade. Also, the Administration should eventually move towards freer trade in textiles and sugar. Before doing so, however, it must reverse its stand on trade adjustment assistance, worker retraining, and addressing the legitimate trade concerns of domestic labor. A Department of Labor study estimates that an unlimited free trade area—unfettered by restrictions in textiles and other products—would cost about 18,000 U.S. jobs. 15,000 would be lost in textiles alone. The Administration cannot hope to enlist the support of domestic labor for freer trade in the very industry which would most benefit the region if it fails to aid American workers to make the painful adjustment to alternative employment.

Investment tax credit

A second major component in the CBI proposal is a 5-year investment tax credit. A U.S. parent corporation may claim a credit against its total tax liabilities for an amount equal to 10 percent of new investment in plant and equipment in Caribbean Basin countries. The credit is only applicable to new equipment or used equipment not previously employed in the foreign country. Parents which are in joint venture with domestic partners may claim a credit proportionate to their share of the new investment. The credit is to be calculated as the lesser of two figures: (a) the increase in value of qualifying property, or

(b) the increase in the parent's equity share devoted to increases in paid-in capital. This definition is slightly different than the domestic tax credit which calculates the credit on the basis of actual investment expenditures, and will probably amount to slightly less, since qualifying domestic property is sometimes financed through debt.

These incentives are coupled with increased protection for foreign investment offered through the Overseas Private Investment Corporation. The U.S. private insurance sector is also being encouraged to become active in the Caribbean Basin, in order to reduce the risk associated with investment.

The U.S. Treasury Department estimates that the cost of the investment tax credit in foregone tax revenues will be about $40 million in the first year. Their estimate represents 10 percent of the share of annual equity flows and reinvestment of retained earnings that were spent on new plant and equipment in 1980, about $400 million. The cost to the Treasury in uncollected taxes would presumably rise over the 5-year period in direct relation to the amount of new investment in the region.

How much new investment would be generated by this $40 million? The answer is no one knows. New investment is highly sensitive to swings in the business cycle, changes in the perception of risk, and changes in overall levels of profitability. Econometric modelling techniques can only separate these various effects by building in debatable assumptions about financial and other relationships.

Studies of the U.S. experience with the domestic tax credit, however, offer reason for skepticism. Although this experience contains no "substitution" effect, the shifting among regions in response to changes in relative profitability, it does illustrate the uncertainty bound up with this instrument. According to a recent study by the Office of Tax Analysis in the Department of Treasury of the 1973 investment tax credit on new domestic investment, every dollar of tax expenditure generated only 76 cents of new investment (Chirinki and Eisner, 1981).[2] Using the 76-percent figure, an investment tax credit in the CBI that costs the U.S. Treasury $40 million can be predicted to generate only $30 million of investment. This may be even less in the case of a foreign tax credit because of the increased risks associated with doing business abroad.

Although the exact estimates of the new investment generated varies depending on the assumptions, the relatively small payback for tax expenditures can be traced back to a central weakness of this instrument: Much of the new investment would occur anyway because business activity is on-going. Yet to get an additional investment, the Treasury has to include all investors in the tax credit. Thus, if U.S. investors in the region currently spend $400 million on new plant and equipment, and an investment tax credit creates an additional $30 million of investment, the total tax expenditures will be $43 million (10 percent of $400 plus $30 million).

The Administration hopes that credit, together with the trade incentives, will generate a large impact. This is unlikely as long as business conditions in the region are precarious. Weak domestic economies, a weak international economy (particularly the U.S. economy), and in some countries, high political risk have depressed expected profitability. Without growing markets, businessmen cannot justify new investments. In fact, capital flight now constitutes a serious drain to Caribbean Basin countries. For at least the foreseeable future, U.S. investors in many countries will probably invest only that amount which is absolutely necessary to maintain their on-going plan and equipment. This investment will occur anyway and the investment tax credit would be an unrequitted loss to the Treasury.

A second drawback of the tax credit is that not all of the additional investment will have a satisfactory development impact, measured by new employment created or products relevant to situation of the poor. A sizable proportion of the credit will go into activities which are relatively capital-intensive and so fail to generate adequate employment. An investment in capital-intensive products, such as cosmetics or cigarettes, for example, arguably does not produce maximum development impact. Since the tax credit fails to discriminate among investments, these crucial development issues are ignored.

These considerations argue strongly against an investment tax credit. It is economically inefficient because it produces an uncertain amount of additional investment and provides a windfall gain for firms which would have invested without the incentive. The $40 million cost to the Treasury could be better spent by channeling the funds directly into the economies without having to rely on intermediating companies.

---

[2] This conclusion is the mean increase in investment projected through the use of six different econometric models containing different assumptions. Only two of the models show increases in investment greater than losses to the Treasury in foregone taxes.

The Administration's objective of promoting private sector investment would be far better served if the funds were channeled either through the International Finance Corporation of the World Bank, which provides joint venture capital for developing countries, or the Private Enterprise Bureau of AID, which is strengthening its activities in private sector development financing. The funds could be targeted by either agency for particular countries in employment generating private sector activities. Such an expenditure guarantees new private sector investment in the targeted countries and investment with a direct development impact.

Economic assistance

The Administration has proposed $350 million in quick-disbursing funds to help the Caribbean Basin countries meet pressing balance of payments needs. Shortages of foreign exchange is a major cause of the profound economic crisis gripping the region. The cost of imported energy has risen, whereas the prices of such key commodities as sugar, coffee, bauxite and nickel have declined. The drop in export prices in 1981 alone reduced the regions export earnings by over $385 million. In addition, high market interest rates have increased the burden of a swollen foreign debt.

The Caribbean Basin nations will need about $4.0 billion in net capital inflows in 1982 (See Table 4). This sum will enable the region to cover its projected current-account deficit (the difference between exports and imports, and between the payments made to external investors and receipts from workers' remittances). The proposed emergency supplemental of $350 million will cover only about 9 percent of projected external financing needs.

TABLE 4.—CURRENT ACCOUNT BALANCES: PRINCIPAL CARIBBEAN COUNTRIES

	1981	1981 growth rate (percent)	1982 [1]	1982 projected growth rate (percent)
Central America:				
Guatemala	−$570	1.0	−$500	−2
El Salavador	−220	−10.0	−360	−5
Honduras	−270	0	−400	3
Nicaragua	−380	5.0	−460	0
Costa Rica	−390	1.0	−235	−3
Panama	−330	5.0	−400	5
Caribbean:				
Jamaica	−450	1.0	−535	3
Dominican Republic	−440	4.0	−630	1
Eastern Caribbean	−245		−315	
Haiti	−105	0	−60	3
Guyana	−190	−.5	−100	0

[1] Estimate based on projected growth rate.

Source: U.S. AID, multilateral development banks, U.N. Commission on Latin America, and own estimates.

Even if the region is able to borrow sufficiently to cover this estimated current account deficit, most countries will continue to suffer economic stagnation or decline. Indeed, it is likely that El Salvador, Costa Rica, Guatemala, Nicaragua, the Dominican Republic, Guyana and Barbados will show little or negative growth this year, even assuming that they are able to finance their portions of the region's $4. billion deficit. Jamaica, Haiti, and Honduras may achieve very modest growth. Only Panama is expected to show a significant expansion in per capita GDP.

The $350 million supplemental represents a substantial increase over the $474 million provided for in the fiscal year 1982 budget. In these times of budgetary stringency, it is a significant sum. Nevertheless, by itself, the proposed supplemental can only have a marginal impact on the region's economies. The supplemental will not be enough to stimulate strong, positive growth throughout the Basin.

The economic future of Central America is especially grim and will remain so if political solutions are not found to halt the fratricidal strife. El Salvador is to absorb $128 million, or a full 36 percent of the proposed supplemental. This is in addition to the $105 million already earmarked for El Salvador in the 1982 budget. (The $164.9 million proposed in the fiscal year 1983 Congressional presentation makes for a 2-year authorization of $397.4 million, or $90 for every Salvadoran.) Given the poor climate for investment and planning in El Salvador, aid can, at best, serve to maintain living standards in government-controlled zones. A portion is likely to join the stream of capital fleeing to safer havens outside the country.

The Administration has properly chosen to allocate substantial portions of the supplemental to Jamaica, the Dominican Republic, Honduras and Costa Rica. All are elected governments struggling seriously to overcome both underdevelopment and an adverse international economic climate. U.S. aid, however, should not be used as a lever with which to pressure Honduras and Costa Rica into following confrotationist strategies with Nicaragua. The resulting political tensions would only destabilize the economies and possibly even the political systems of both democracies.

Nicaragua is excluded from the supplemental, and from the fiscal year 1983 AID Congressional presentation. In fact, the Administration seems prepared to marshall a wide range of instruments and resources for the expressed purpose of undermining the Nicaraguan economy. The actual effect, however, promises to be tragically counterproductive. A beseiged Nicaragua is less likely to be democratic or to reduce its ties to Cuba. A frightened Nicaragua is more likely to seek Soviet protection.

Yet, economic aid could strengthen the private sector and political pluralism in Nicaragua, as well as assist in meeting basic needs. Aid authorizations, if not overly burdened with restrictive and inflexible amendments, could be used as a carrot by the Administration, in a good-faith effort to reach an entente with Nicaragua.

For the whole region, then, the proposed aid supplemental, even when taken together with the trade and investment incentives, will not be sufficient to cover resource needs. Even if the CBI package were to amount to as much as $500 million in the first year, it would not be enough to bridge the resource gap projected to be $4 billion. Countries in the region will be forced to turn increasingly to the International Monetary Fund (IMF), the World Bank, and the Inter-American Development Bank (IDB) for the large volume of resources they will most certainly need.

Yet, in its enthusiasm to gain bilateral leverage, the Administration has tended to give reduced priority to these same multilateral financial institutions. It has opposed new quota increases for the IMF and reduced U.S. commitments to the World Bank and the IDB. These measures are directly counterproductive to U.S. interests in the Caribbean Basin.

In sum, the emergency aid supplemental is generous, given the constraints on the U.S. budget. It is modest, however, in comparison to the Caribbean Basin's economic problems, and should not be oversold. In the interests of creating a more stable business climate and preserving essential U.S. security interests, aid should be used to support a diplomacy of compromise and peace. The United States should increase its support of the multilateral institutions more abundantly endowed to cope with the region's economic adjustment.

POLICY RECOMMENDATIONS

General

The CBI is an imaginative and potentially important development initiative. It brings together several development instruments, including aid, trade, and investment policy, to the task of generating economic growth.

Yet, the CBI is fundamentally flawed by its ties to an ill-conceived political strategy that relies too heavily on confrontationist policies. The CBI apparently incorporates the divisive bilateralism that has characterized the Administration's hardline diplomacy. Instead, the United States should pursue a diplomacy of compromise, true multilateralism and inclusiveness as the better strategy to pursue American interests and enhance the region's economic prospects. This requires seeking a negotiated solution to the civil war in El Salvador and de-escalating the confrontation with Nicaragua. President Lopez Portillo has offered the Administration the opportunity to gracefully alter directions not only towards these countries, but also the entire Caribbean. Without such a change in policy direction, the CBI cannot successfully rekindle economic growth in the region.

Specific

First, the CBI is a potentially important instrument to maintain and enhance the economic links of these economies to the West. We recommend that the CBI should not exclude Nicaragua and Grenada or other countries. For obvious reasons, Cuba cannot be included at the outset of the program, but the CBI should be held out as yet another incentive for Cuba to reestablish trade relations with the U.S.

Second, the Free Trade Area is an important measure that, given a more complementary political strategy, could eventually aid the region's recovery—even though its effects will probably be modest. We recommend Congressional support of the FTA, provided that Nicaragua and Grenada are not excluded and that the United States commits itself to a program of limited duration and to no further discriminatory regional programs. With such commitments stated, the CBI is less politically discriminatory and represents less of a deviation from multilateral principles. It can better be seen in this light as a step towards freer trade, rather than politicized trade. Consideration should be given to eventually extending its provision to textiles and sugar where its impact would be greatest, although this should be contingent upon serious efforts to cope with the problems of the trade-induced dislocation in domestic industry.

Third, the investment tax credit is economically tenuous. It is uncertain that the total cost to the U.S. Treasury of about $40–45 million will produce new investment approaching than that amount. Furthermore, there is no guarantee that the new investment that does occur will have a strong development impact. Therefore we recommend against the enactment of the investment tax credit. Congress might more productively use the $40 million to enhance the private sector's growth directly by channeling the funds to the IFC, or for the co-financing programs of the Private Enterprise Bureau of AID.

Fourth, the economic aid is disproportionately directed at El Salvador. Under current political conditions, over one-third of the $350 million supplemental will be spent in this war-torn country, with no assurance that it will contribute to a reduction in hostilities. Aid can, however, be an important bargaining chip in the pursuit of a political solution. Therefore, we recommend that supplemental aid not be given to El Salvador unless the Salvadoran government undertakes a good-faith effort to seek a negotiated peace with the major opposition groups. Otherwise, economic aid should be channeled to the democratic regimes that are serious about development and the protection of human rights.

Fifth, the region's economic plight has been worsening at an order of magnitude far greater than the ability of the United States to unilaterally ameliorate the situation. A truly coordinated multilateral effort is needed to provide the large amounts of economic assistance that the Caribbean Basin countries require. We therefore recommend that the U.S. Administration reverse its position, and support significant expansion of the multilateral financial institutions. These institutions should take the lead in organizing the other multilateral and bilateral donors to increase both the quantity and effectiveness of external assistance.

The Caribbean Basin Initiative suggests that the United States possesses the talent to creatively address the difficult problems confronting a Third World area in turmoil. But only an equally enlightened and courageous U.S. diplomacy coupled with more progressive trade and labor policies will allow the CBI to fulfill its potential.

REFERENCE CITED

Chirinko, R. S. and Robert Eisner "The Effects of Tax Policies on Investment in Macroeconometric Models: Full Model Simulations" Office of Tax Analysis, Paper #46. U.S. Department of Treasury. January 1981.

APPENDIX A

METHODS USED TO CALCULATE TRADE EFFECTS

The value of the increase in U.S. demand for CBI imports for each product is given by the formula:

$$dM = M \cdot m \cdot dt/(1+t)$$

where dM is the change in U.S. imports, M is the initial value of imports, m is the elasticity of demand for imports, dt is the change in tariff rate, t is the tariff rate. This is the net trade creation effect of cutting imports duties, and is used to calculate the column labelled "Net U.S. Imports" in table 2. But this does not give the gross trade creation for the CBI countries since some of the already imported products would now be supplied from the CBI countries. This is given in formula:

$$dE = E \cdot (m+n)dt/(1+t)$$

where dE is the change in exports from the region, E is the initial exports from the region to the United States, n is the cross-price elasticity of these exports with respect to a change in their price relative to the prices of exports of countries which do not receive the preferential treatment.

The import elasticities (m) were taken from R. E. Baldwin "U.S. Tariff Policy: Formation and Effects" U.S. Department of Labor Discussion Paper, June 1976. The import and export levels for 1980 were kindly provided by the U.S. Department of Commerce. The cross-price elasticities present in column "A" of Table 2 are assumed to be 1, and column "B" they are assumed to be 3.

The calculations for the "Total All FTA" row projects a total based upon the level of increase for the largest 15 products.

Because of the inclusion of 806.3/807 commodities, the changes in export levels are somewhat overstated. This is because the ad valorem equivalents are based on value added for these products; this implies the tariff levels used the the calculations is somewhat overstated, magnifying the new demand created in response to the overstated cuts in tariffs.

U.S. DIRECT INVESTMENT POSITION IN CENTRAL AMERICA AND THE CARIBBEAN, YEAR END 1980

				Manufacturing											
	All industries	Mining	Petroleum	Total	Food and kindred products	Chemical and allied products	Primary and fabricated metals	Machinery except electrical	Electric and electronic equipment	Transportation equipment	Other manufacturing	Trade	Banking	Finance (except banking), insurance and real estate	Other industries
Central America	4,223	40	720	656	174	280	(2)	0	35	4	(2)	667	210	1,391	856
Panama	3,190		566	240	(2)	151	0	(1)	1	0	(2)	581	(2)	1,375	(2)
Other	1,033	39	154	417	(2)	128	(2)	(1)	34	4	(2)	85	(2)	17	(2)
Other Western Hemisphere	1,437	312	898	429	163	170	(2)	(1)	23	(1)	(2)	1,024	1,655	−3,198	458
Bahamas	2,701	(2)	284	40	(2)	(2)	0	0	2	0	(1)	259	1,338	622	(2)
Netherlands Antilles	−4,072	(2)	(2)	(2)	−1	(2)	0	0	2	0	(2)	16	(2)	−4,534	34
Trinidad and Tobago	962	0	(2)	(2)	(2)	(2)	(1)	0	3	0	(2)	7	(2)	3	47
Other	1,847	292	138	(2)	155	(2)	(2)	0	16	(1)	(2)	(2)	(2)	711	(2)
Total	5,560	352	1,618	1,085	337	450	(2)	0	58	4	(2)	1,691	1,865	−1,807	1,314

[1] Less than $500,000 (1).

[2] Suppressed to avoid disclosure of data of individual companies.

Note: Disaggregated industries will not sum to all industries because of suppressed data.
Source: U.S. Department of Commerce, "Survey of Current Business." August 1981.

The **Chairman.** Thank you very kindly, indeed.

On my first question I would like to get a brief answer from each one of you. And let me say that any of your answers can be expanded for the record. The hour is getting late.

Given that this committee and others will have an opportunity to mark up this legislation, and given your criticism of the adequacies of the package, what if any change should be made in the legislation? It is not locked in cement. It is sent up here for purposes of markup, and we can change it any way that we see fit.

What programs should be stressed that are not included in the CBI?

Mr. **Newfarmer.** Senator, I would be happy to address that question, at least insofar as the investment tax credit is concerned. I think the investment tax credit contains only uncertain benefits. There simply is no way to get a firm handle on how much the tax loss to the Treasury will actually be or what new investment will be produced. We are going to be paying companies who would invest in the region regardless of whether there were investment tax credits.

Therefore, I would recommend against the adoption of the investment tax credit proposal.

The **Chairman.** Excuse me. I was occupied at the moment. Would you repeat that, please?

Mr. **Newfarmer.** Certainly.

I would like to recommend against the adoption of the investment tax credit, simply because there is no way of knowing how much new investment will be generated for the tax expenditures, the tax losses to the U.S. Treasury.

The **Chairman.** Thank you. I thought that was what you had said, but I wanted to be sure.

Dr. Cline?

Mr. **Cline.** I have no modifications to suggest. I think the most important thing is the general thrust of the initiative, which it seems to me deserves support. For that reason, I would take exception with Mr. Newfarmer's recommendation that the tax credit be removed. I think it is instrumental to have the dynamic investment effect.

I might point out that the calculations based on past trade data I think are largely irrelevant.

The **Chairman.** Thank you.

Professor Fishlow?

Mr. **Fishlow.** I would suggest three changes: One, more explicit multilateral management of the program, in which other donors would be included, is indicated. Otherwise it will be extraordinarily difficult for the Congress to evaluate the magnitude and allocation of the economic support funds that will be required in the region. Such a thrust, by explicit inclusion of other hemispheric countries and international financial regulations, is more likely to serve our long-term political objectives.

The second would be modification of the investment tax credit in order to emphasize labor intensive activity. That would operate directly to increase employment in the region and thereby deal with the problem of migration, which is of great concern.

The third modification is to allocate resources over a longer period of time and to program them in a way such that the economic development perspectives and objectives are not lost. This objective can be served by moving to an explicit multilateral structure.

The **Chairman.** I am going to ask a few questions to just one witness. If the others want to amplify, we will keep the record open for that purpose.

First, doctor, how would you assure that short-term ESF funds do not make it easier for countries to avoid needed structural changes a bit longer? Would it just serve as a crutch for them, Dr. Newfarmer?

Mr. **Newfarmer.** That is a difficult question. The ESF funds often have been disbursed in conjunction with some sort or larger package put together by the IMF. It has been U.S. policy in Jamaica, for example, simply to support the conditionality worked out with the country by the IMF. These conditions have usually been about as stringent as the countries can bear, and require rapid adjustment.

In the case of countries where no IMF agreement is in place, the United States has to take the lead in putting forth some form of conditionality, that is changes in certain economic measures. These would have to be examined on a country-by-country basis.

The **Chairman.** Do you feel that the IMF and multilateral development banks are currently pursuing policy objectives in the Caribbean region which appropriately balance the need for long-run economic health with the desire for short-term political stability? Would a new infusion of public funds undercut their efforts to impose conditions on their own lending, Dr. Cline?

Mr. **Cline.** I think that the record of the multilateral institutions in the region has been relatively good. The most controversial perhaps has been the program of the IMF in Jamaica. We have recently had a conference at our new institute on IMF conditionality, and it seems to me that the conclusion there on the Jamaican case was that the fund was not insisting on the wrong kind of conditions or insisting on overly harsh conditions.

So it does not seem to me that there is a bad record of the IFI's, quite the contrary, in requiring the right kinds of conditions and development objectives. It does seem to be true that the political actors in the region are concerned about the seeming unilateral nature of the U.S. initiative, the seeming erosion from the earlier conception of a close integration with other donors in the area and a transition toward a strictly one-country approach.

In that connection it seems to me that we would enhance the likelihood that we would not be at cross-purposes with the multilateral institutions if we moved in the direction that Professor Fishlow suggested, which is trying to make a greater effort to coordinate our own efforts with the multilateral institutions' efforts.

But I do not see a major risk being that we would make life too easy for these countries. These countries are in severe balance of payments crises, and the amount of funds that we are proposing here are not going to suddenly make life soft for them and enable them to ignore the requirements that the other agencies are asking of them.

The **Chairman.** Dr. Fishlow, it is my understanding that much of the benefit of the CBI is really anticipated to come from trade and investments in new product lines, rather than in expansion of existing product lines or additional trade in traditional products. Would you comment on the likelihood that new investments will occur and thereby stimulate more growth in the area?

Mr. **Fishlow.** I think those long-term decisions, as emerged from the earlier panel, probably depend very much more substantially on the political stability of the region than they do upon marginal economic incentives. We do know that all of the countries, or at least very many of the countries, of the region for a long time have offered monetary incentives. They have offered tax holidays, they have offered very special privileges to investments that have been undertaken there, without producing an enormous boom. It is quite striking that more investment has gone to countries such as Singapore, Thailand, and the Philippines, than to the Caribbean, to take advantage of offshore processing, where the provisions of tariff codes 806 and 807 apply.

I believe that we must be cautious, therefore, in our assessment that these new privileges will spark an economic boom in the region. Indeed, my greatest fear is that we will become frustrated after 2 or 3 years of limited benefits. Then we may simply lose interest in the region and repeat our disillusion with the Alliance for Progress in the 1960's.

The **Chairman.** I am going to ask Senator Dodd to take the gavel at this stage.

I would like to ask just one other thing of this very distinguished panel. We do not have a chance to have your advice and counsel simultaneously on matters too frequently. I have been talking with Senator Dodd for a number of months and I look to him as one of the most concerned and knowledgeable members of the United States Senate in the area of Central America, having lived there, speaking the language fluently, and keeping in very, very close touch.

I want to pay tribute also to the absolutely remarkable job that Nancy Kassebaum did. She was just the right person, and we are going to bring her to Cook County to help us look at our elections. She came back with one of the most sensitive and moving reports of what she had experienced that I have heard.

I have been counseling with Senator Dodd, whose judgment I value, on what we can do to encourage the negotiating process, to encourage those strife-torn countries to recognize that they are not going to solve their problems with force of arms. They will just add to the human misery. Things will get worse, not better, as time goes on. And negotiations and that process must be undertaken.

We are working on the wording of a resolution which has been discussed with Senator Dodd and me, and I will be counseling with Senator Pell and Senator Kassebaum and others on it. Might I possibly give a copy of that in rough draft form to you and hopefully, before you leave town, you will be able to give us your written reactions on it. Tell us where it can be strengthened, where it can be improved, where are we possibly not sensitive enough to the situation. We want to move very rapidly on it, because time is of the essence down there right now.

I want to thank you all very much. We deeply appreciate your appearance here today.

Chairman Dodd, you are in command. Once again, this is the last man club.

Senator **Dodd.** Mr. Chairman, before you leave, let me say that you have been very, very generous in your comments to me. I hope all of you recognize that this is not my normal seat. You would have to be a rubberneck to see where I sit on this committee. It is down there in the corner.

But I have been very fortunate in two regards: One, I have been fortunate to have obtained a seat on this committee. But little did I know how fortunate I was going to be—and this gets to point number two—to have the privilege of serving with a chairman who has been as sensitive and as open to these questions, who does not just talk bipartisanship in foreign policy, but is a living example of what can be done in a bipartisan way.

He has written what I think is one of the finer articles I have ever read on bipartisanship in Foreign Policy just recently, and it was not just a statement for an audience. It is a deep conviction of his.

To give a very junior member of this committee an opportunity to participate, at such an early stage in my career here in the Senate, in the formation of foreign policy is something for which I will always be indebted.

And let me add with respect to El Salvador and the issue of seeking a negotiated settlement, the chairman was really in the lead on this. He has always felt that military solutions are not going to achieve the kind of stability we all want to see in this hemisphere, and that this does have to come through a political process.

He has been extremely gracious to me and to others and has taken, really, the leadership on this issue in terms of trying to seek a sound, intelligent, thoughtful, and rational approach to these problems.

Mr. Chairman, I want you to know before you go off and give me this gavel, with which I may do some terrible things——

[Laughter.]

Senator Dodd [continuing]. That I really do appreciate what you have done for me in this past year. I am truly a fortunate member of this body to have served under your chairmanship.

The Chairman. Well, thank you. You do not serve under me; you serve with me. We are coworkers and coequal, although the gavel does help on occasion.

The last paragraph, after all of our whereas clauses, when we get down to the guts of it and to the action is to reaffirm that we believe that the resolution that was adopted is right. The certification that the President must make, he did not like that. The administration did not like it and objected violently. And I said, you either get that or we do not pass the legislation. It has to be subject to that.

That was drafted by Senator Dodd. He was the author of it. We were skeptical to start with, but convinced at the end that, like any good banker, you had better lay down the terms of the loan so that it can be understood in no uncertain terms.

We are not interfering with their sovereignty. They can run their country any way they want. But if they want to come to us and ask us to bankroll it and ask for our support, then they have to meet certain conditions, none of which they disagreed with whatsoever. They just did not want them imposed.

I have always found that it is good to put into writing the unequivocal nature of things and then to get certification at least twice a year by the President. And we thank you, Senator Dodd, for your contribution to that.

Now, with all of that, come on, seize control of the Chair. Sit over here. You can even put the lights on if you want. That will give you all the power that you need.

Thank you very much.

Senator Dodd [presiding]. I might add too that the chairman added substantially to the language of that certification bill as well.

First of all, my apologies to the three of you. You all know this institution well enough to know how it functions. Today we have spent, in the last day and a half, approximately 10 hours—and I do not know quite how that calculates out in cost—determining what Members of Congress tax obligation ought to be.

I think I have calculated correctly: We have spent more time now on this issue since the beginning of the second session of this Congress than we have discussing nuclear war, the present overall tax obligations and responsibilities of the public at large, the fact that 9 percent of the American public are out of work, and the fact that our economy is in dire straits and that we are having 444 bankruptcies a week in this country, record rates. We have not discussed those issues for the same amount of time that we have discussed whether or not our tax obligation ought to be $3,000 or $6,000.

I apologize, frankly, for the fact that we have to be over on the floor to vote on a matter such as that when we have issues such as these before us. That is something that causes me severe embarrassment as a member of this body. So my apologies to all three of you.

I particularly want to welcome Al Fishlow, a constituent. We always welcome constituents, Al. It is not only a pleasure to have a constituent in front of us, but also a constituent with whose approach I am in total agreement, your approach on this matter.

As I read your statement, Al, I believe you are generally supportive of the initiative. Is that correct?

Mr. Fishlow. That is right, Senator Dodd. I did suggest, when Senator Percy raised the question of what might be done in marking up the bill, that there were three directions that I thought were appropriate: First, was to introduce a much more explicit multilateral content to the initiative, such that the Inter-American Development Bank, the World Bank, the IMF, and other countries would be drawn in formally and at an early level. Congress could then program its recourses more effectively, rather than independently, and without regard to total finance.

The second recommendation was that the investment tax credit should be, if included, amended in order to insure that its capital intensive bias is not retained. It is appropriate and important to favor investment in labor intensive activity within the region in order to stem the flow of migration to the United States.

The third suggestion that I make was to have longer term programing and expansion of development assistance. As it stands, such assistance declines as a proportion of the total package of funds to the region. Of the reform and development objectives are to be served, that is necessary.

Senator Dodd. Let me say that I have perused your testimony.

I would ask the other two witnesses to please comment on Dr. Fishlow's recommendations.

Mr. **Cline**. I think I certainly would agree with the need to coordinate the effort with the multilateral institutions. If I understood the last recommendation to mean that there is a need for more aid—was that what you were saying?

Mr. **Fishlow**. I was suggesting that the proportion of the funds provided by the U.S. Government might very well be directed more to development assistance projects rather than economic support funds, and should be programed over a longer period of time.

Mr. **Cline**. Thank you. Yes; I can identify myself with that also.

I am less certain about the feasibility of having a specific investment tax credit which somehow is geared to the labor intensity of the projects. It seems to me that it would involve rather arbitrary and complicated regulations. I am sure it would not make the labor unions in this country any happier with the program than they already are, given the fact that it would tend to push investments even more toward labor intensive activities.

So, although I was sympathetic with the possibility that there may be some bias, I am dubious.

Senator **Dodd**. If I heard you correctly, then, your concern is more with the technical nature than with the goal of trying to induce more labor intensive economic development?

Mr. **Cline**. Certainly.

Mr. **Newfarmer**. On the first point, the need for greater multilateralism, I think it is exactly right and I certainly would support Professor Fishlow's statement. I think I would differ with him on the issue of the investment tax credit, trying to build in a bias or counterbias in favor of labor intensive technology, not because I am not sympathetic with the objective that he wishes to reach, but I agree with Dr. Cline that it is very difficult to do.

Also, I am much more skeptical than perhaps either of my fellow witnesses here about the effectiveness of the investment tax credit at all. In fact, as I mentioned to Senator Percy before, I would recommend that we simply not include it at all. I think it is inefficient as a way of stimulating private sector investment, simply because we have no guarantee that new investment actually would occur in the region as a result over and above that which would have occurred anyway.

That suggests that there would be windfall gains for those producers that would have invested in the region anyway. As a way around that, I suggest a modification, that perhaps we take the tax costs to the Treasury that would have been lost through the investment tax credit and put that money directly into private sector development in the developing countries, perhaps through the IFC or Private Enterprise Bureau of AID, which would allow a leveraging of equity capital in the region.

We could monitor it. We could monitor it for its development impact to make sure that, if employment were a concern for us, that in fact it would go into employment-creating industry. And it could be used to leverage, new additional investment. So it would be much more of a targeted approach, and I think over the long run far superior.

I have no general objections to Professor Fishlow's third point, on the ESF funds. I would go a bit further as I do in my written statement, in urging that any approval of ESF funds for El Salvador be made contingent upon a serious attempt on the part of the government to seek a negotiated settlement of that region's problems.

The reason is simply that the Caribbean Basin Initiative cannot thrive in a time where the political environment is not conducive for investment. That is, the situation is simply so unstable that investors are unwilling to invest because profitability is low and uncertain.

Senator DODD. I do not know if you were in the room earlier, but I asked the three previous witnesses whether or not they would invest under the present circumstances in El Salvador. They said no. That was not a surprising response, given the present conditions down there.

I wonder if you can tell me now, and if not provide an answer at least in general terms and perhaps supplement your responses at a later date with some more specific analysis, what sort of businesses have invested in the Caribbean Basin? We talk about the capital intensive versus labor intensive industries. Is there a lot of capital expenditure? Are people using existing facilities?

Are they going in for the kind of investment where they are taking out a lot of capital on a yearly basis? Are they multilateral, multinational corporations more than the small business person who goes down and starts a business and that is their only place of business?

What is the profile of foreign investment? I am not just talking about U.S. investment now, but what is the profile of the foreign businessman in the Caribbean Basin today if such a profile can be drafted?

Mr. FISHLOW. I will try to make a start. I think it is useful to differentiate three types of foreign investment.

First, has been in the primary extractive sector, directed to the development of bauxite and other materials in Jamaica, Guyana and other areas. That has been a large component of our investment in the region. I would put investment in oil refineries in the same category. As we know, they account for a large part of the exports that are included in the region's total.

A second category of foreign investment in the region has been directed to Central America, partially in response to the Central American Common Market and the favorable opportunities for production for the protected domestic market. That has been largely in the manufacturing sector. It has been less for export than it has been for internal consumption within Central America.

A third category of investment, which is of more recent vintage, in some of the Caribbean Islands, such as Haiti, and elsewhere, has been for offshore processing. This is very readily apparent from the fact that the U.S. exports of textiles to the region exceed our imports back. We are exporting garments to be sewn in countries where wage rates are relatively lower, and reimporting the finished products. This is also true in other sectors like electronics.

So one has a mix in the region of all three of these kinds. In part one of the great problems in talking about the Caribbean Basin is that it is a geographic concept more than an economic, or social, or political one. The heterogeneity of the region is reflected in the characteristics of investment and exports.

Senator DODD. Might I ask the two of you to comment on that as well, if you agree or disagree? Please comment.

Mr. NEWFARMER. I certainly agree with what Professor Fishlow has said. If you like, I can provide you with the background numbers on that, because we examined them in the process of putting together our testimony.

Senator DODD. That could be very, very helpful to the committee.

Mr. NEWFARMER. Certainly. The only thing I would add to that is finance. That does not fall under the purview of the Caribbean Basin Initiative directly, but nonetheless finance is a major activity in some of the Caribbean Islands.

Senator DODD. Dr. Cline?

Mr. CLINE. I have nothing to add.

Senator DODD. We are in the midst of another vote here. I know that other members would like to submit written questions to all three of you as well.

We would ask for your ongoing participation, by the way, in this process. We appreciate your testimony and that will serve as a foundation. But I feel confident in requesting your continued interest and comment through the process, either by mail or directly by phone with the staff or through personal visits, so that we end up doing what is not only going to be economically possible in the environment we live in, but is really going to make the kind of impact that all of us would like to see this program make in the region.

On behalf of the committee, I thank all three of you for your patience in waiting today to appear. And again, I apologize for the interruptions that we have had with testimony today. Thank you again for appearing before this committee on this piece of legislation.

This committee will stand adjourned.

[Whereupon, at 1:20 p.m., the committee adjourned, subject to call of the Chair.]

APPENDIX

PREPARED STATEMENT OF TRANSAFRICA, WASHINGTON, D.C.

TransAfrica, the black American foreign policy lobby for Africa and the Caribbean, views the Caribbean Basin Economic Recovery Act of 1982 (H.R. 5900/S. 2237) as an interesting but inadequate program. While the three pronged, self-reinforcing approach—especially the trade incentives—are commendable, the two main components of the bill—investment credits and financial assistance—require serious modification. The investment tax credits will represent losses to the U.S. Treasury without reasonable hope for significant additional investments, especially those of a labor-intensive kind. The amount of emergency economic assistance will not come close to relieving the current account deficit of the region or to stimulating economic recovery. What is most troubling, however, is the allocation of the funds. Thirty-seven percent of the aid will go to one repressive government in the midst of a civil war while other countries with brighter prospects will receive a pittance.

POLITICAL CRITIQUE

Central America and the Caribbean have not been the targets of a major economic development program since the Alliance for Progress in the early 1960's. Interestingly, just as its predecessor, the Caribbean Basin Initiative (CBI) is emerging in response to the fear of expanding Communist influence. In March 1961, Washington was concerned about the Cuban Revolution. In February 1982, the current administration was concerned about the growing leftist foothold in the Central American isthmus. This motivation for action, unfortunately, distorts and limits development impact. In the rush to contain or smother the "bush fire of the day," U.S. policy-makers overlook the cause of social and political unrest and do not take the time to design and implement programs that will reduce the chances of future "bush fires" occurring. In the CBI, irrational fears and biases lurk, seriously weakening the package.

First, the concept of the "Caribbean Basin" is artificial and unsound. The grouping together of Central America and the Caribbean indicates more of a geostrategic concern than a true appreciation of the diverse historical, economic, and political realities. The Caribbean archipelago, ranging from the Bahamas to Trinidad and the mainland states of Belize, Guyana, French Guyana, and Suriname, have similar political institutions and traditions, large populations of African descendants, peculiar economic characteristics stemming from their insularity, and polyglot cultures. On the other hand, the Central American republics have a long history of military rule, feudal economic arrangements, and Ibero-Indian cultures. On the short term horizon, the development prospects for the Caribbean are far brighter than those of the turmoil-engulfed Central American states. Yet, the Administration is far more concerned about the latter area as reflected in the distribution of supplemental assistance. Of the $350 million, $233 million is earmarked for three Central American countries while $10 million is to be divided among some sixteen Eastern Caribbean states. The Reagan Administration seems somewhat unmindful of the mounting pressures for progressive change in Central America which will dictate a period of necessary instability. Therefore, negotiation, rather than military confrontation, should be encouraged.

Second, the belief that the present guerrilla insurgencies in the isthmus are Communist instigated and controlled is a gross misreading of regional dynamics. A corollary is that once a leftist-oriented regime comes to power, it is irretrievably aligned with the Soviet Union. The present armed conflict in the area and in other parts of the world stems from rigid, exploitative economic arrangements, social injustices, and massive inequities. Harsh rhetoric and confrontational policies limit U.S. options in the region, heighten tensions, and further dissipate investor confidence. The concerted efforts to isolate Grenada and Nicaragua will force those countries into greater dependency on the Eastern bloc, making the policy counterproductive. The blocking of World Bank loans to Nicaragua, the increased number of military maneuvers, the securing of base rights in Honduras and Colombia, and the solicitation for more bases in Haiti and Jamaica resemble the days of "Gunboat and Dollar Diplomacy" more than any new beginnings in U.S.-Latin American relations. Already Mexico and Venezuela object to the exclusion of the three leftist-oriented countries in the area. As the initiative is evolving, it is not a multilateral, cooperative plan but a diaphanous cover for a slew of bilateral agreements. Under this act, the Executive will have the discretion to sign treaties with beneficiary Basin countries based on their "self-help efforts" as well as other criteria.

As a result of these misperceptions, the U.S.-Caribbean/Central American policy is working at cross purposes and missing significant opportunities. The military-diplomatic portion is confrontational and strident while the economic portion is said to be cooperative and development-oriented. The military threats—the "stick" portion—daily alienates more allies, the public, and the Congress. The economic program (CBI)—the "carrot" portion—is meager and oversold. Moreover, the chance to coordinate and integrate aid policies with other hemispheric donors and possibly the EEC in order to insure the most efficient utilization of scarce development resources has been lost because of the strong ideological strings that the U.S. attaches to its program. Extreme material deprivation and inequality, the fountain-heads of unrest, will be reduced by anti-Cuba posturing and attempts to subvert Grenada and Nicaragua. The Administration's proposal falters on this point. It does not address the salient structural barriers to development. Rather, it basically reacts to crises in a stop-gap fashion.

ECONOMIC CRITIQUE

Trade.—The "centerpiece" of the CBI is the allowance for duty-free entrance of all Basin products with the exception of textiles and apparel (sugar is under a quota program) for a twelve-year period. This trade liberalization in a time of growing protectionist sentiment is laudable. Nonetheless, the lowered U.S. trade barriers should be coupled with measures aimed at eliminating production bottlenecks, e.g. inadequate electrical generation, airport and harbor facilities, technical expertise, transportation networks, etc. The proposal as written is incomplete for this reason.

While it is hard to estimate the trade effects of the duty-free allowance, the direction will be positive, but the magnitude will probably not be substantial given the low demand and income elasticities for tropical, agricultural products, the region's main exports. The real promise of the free trade provision lies in the development of more manufacturing and processing activities in the mid to latter part of the twelve-year period.

The sugar quota will practically affect the three largest regional producing countries—the Dominican Republic, Guatemala, and Panama—which were ineligible for exemption under the Generalized System of Preferences (GSP). Under the quota, these countries would be able to export slightly more to the United States than at the present. A more detailed study of the likely ramifications on the domestic sugar price support system should be commissioned. If price discounting occurs, either from large yields or aggressive export strategies, economic dislocation and hardship could result. Cane sugar production should not be encouraged because it is uncompetitive with beet sugar. It should also be noted that increased returns to multinational corporations and large sugar plantation owners will not necessarily result in widespread benefit.

With regard to potential damage to domestic industries beyond sugar we believe that the Virgin Islands rum industry to be the most immediately vulnerable and in the latter years shoe manufacturing. Given the basic uncompetitiveness of these industries, mass adjustment assistance and retraining programs should be instituted—the very opposite of what the Administration contemplates in its domestic budget. In the case of the Virgin Islands, one rum factory with its 100 employees generates fifteen percent of the government's revenue. Adequate compensation should be specifically articulated because enactment of the CBI proposal would mean the demise of that factory.

Tax incentives.—The Administration believes that the mating of trade and investment incentives in the emerging pro-private enterprise Caribbean milieu will result in significant economic advances. TransAfrica is less optimistic.

While the trade incentives are a good beginning, we find that the tax incentives are flawed. First, the CBI package ignores the infrastructural impediments in the Basin, especially the Caribbean islands, which in practice will not induce much investment. In the Eastern Caribbean, electrical power and desalinized water supplies are inadequate. Transportation in the region is also very expensive. With these factors in mind, how attractive is the typical Caribbean island to a private manufacturing investor? Profitability is the main determinant of investment, not marginal tax breaks. Given the world recission, high interest rates, and small internal markets, far more important factors in determining profitability, the impact of the tax incentives should not be exaggerated. It will increase profits, but it will not create profits.

Second, businessmen are inherently cautious and given the political turmoil in Central America, little new investments will be forthcoming in that area. As a matter of fact, capital flight is occurring. The Agency for International Development reports that over $500 million left El Salvador in 1979 and 1980. These are conservative estimates since most flight occurs through illegal channels. As conditions deteriorate in Costa Rica, Guatemala, and Honduras, the outflow of capital will increase.

Third, underemployment and unemployment are monumental problems in the Basin. In the Caribbean, official unemployment ranges from 20 percent in Puerto Rico and the Virgin Islands—two of the better off islands—to 59 percent in St. Lucia and Dominica—two newly independent states. In the under 25 age group, unemployment ranges from 40–70 percent. The tax investment credit as written is faulty because it does not specifically encourage labor intensive investments. An improved version would tie the percentage point of tax credits to increasingly larger numbers of indigenous employees.

Fourth, the credit instrument is an indiscriminate measure that will reward capital replacement as well as new net investment. In other words, investments in on-going commercial activities will be rewarded equally as totally new factories. The end result will be lost tax revenues with little assurance of significant development impact. Under the present plan, the U.S. Treasury will not only lose an estimated $40 million in revenues, but the Basin unemployed may not find jobs because the relative cost of capital machinery is being lowered.

TransAfrica recommends drastic reformulation of this provision. The U.S. Government has to encourage employment generation in the region. The estimated $40 million to be lost in tax revenue may be better channeled to multilateral banks, the Caribbean Common Market (CARICOM), AID projects in the region, and the Inter-American Foundation, an organization that assists indigenous, self-help groups and small businesses. Instead of attempting to induce big U.S. investors into the region, it may be better to encourage local entrepreneurship.

Economic aid.—The $350 million supplemental assistance is far from adequate, but given the reality of budget stringency, an appropriation of a larger amount is very unlikely. The Basin countries have a projected current accounts deficit of $4 billion for 1982. Obviously, this small amount of quick-disbursing funds will have little impact. If passed, the $350 million will meet only 9 percent of projected external financing needs. Lower interest rates, a reinvigorated market for traditional exports, debt forgiveness, and continued reductions in oil prices will be far more beneficial than this level of supplemental assistance. This emergency aid will not check stagnation and decline; it at best will help to maintain consumption levels.

Since no economic recovery is possible in El Salvador until a political solution is found to the on-going civil war, we recommend a drastic reduction in the assistance to that country and redirection to the islands of the Eastern Caribbean where the monies will have a larger positive impact. El Salvador is already slated to receive $105 million in economic assistance for 1982 and the Administration will probably reroute additional monies from the economic support contingency account. Further, we recommend that all aid to El Salvador be made contingent on the undertaking of good faith negotiations will all opposing political factions by that government.

Our gravest concern, however, lies with the continuing efforts to isolate Cuba, Grenada, and Nicaragua. We believe that the present confrontational policies toward these countries are ungrounded and are inimical to U.S. long-term foreign policy objectives. Strident condemnations, the blocking of multilateral bank loans, covert destabilization plans, and pressures on neighbors to distance themselves, heighten the insecurities of these governments, undermine the forces of moderation within these countries, and reaffirms the imperialistic image of the

U.S. Government. The governments of Cuba, Nicaragua, and Grenada are legitimate entities and deserve the right to pursue alternative development strategies. Increased U.S. hostility will definitely precipitate extremism whereas a pragmatic and accommodating approach has greater promise in encouraging open, pluralistic societies. The United States belittles itself by abandoning its democratic traditions and the principle of self-determination by acting in such petty, arrogant ways.

Another concern with the supplemental assistance portion of the package lies with allocation of $2 million for the Latin American Regional/American Institute for Labor Development, a group associated with CIA covert operations in the past, most notably with the overthrow of Cheddi Jagan, the former leftist Prime Minister of Guyana in the early 1960's. The signal sent to Caribbean and Central American states is questionable. In a subtle but unmistakable way, the United States is warning Basin countries that it will not accept a "leftist or progressive agenda."

CONCLUSION

In summary, although the CBI should be noted because it combines and coordinates several development instruments, the proposal is grievously flawed by its misplaced emphases on military security and a boundless faith in the private sector. Moreover, the CBI suffers from its resemblance to "Gunboat Diplomacy" in the region. In this context, the Initiative is bound to be ineffectual. The blatant thrust of the program is that friendly and strategically situated countries will be supported and rewarded regardless of despotic records and that enemies and nascent, alternative regimes will be brutally punished and subverted. The thinly veiled bilateralism allows leverage that will be used to divide the Basin countries into foe and friend, oblivious to long-term development priorities. This thrust will work to force reformist, progressive elements in the region to cower, thereby retarding political and social maturation. A more compromising and constructive diplomacy would better serve the alleged goals of peace and stability; but American control and economic gain seem to be more operant goals.

We recommend that legislators drastically amend the CBI package if taxpayer dollars are to be wisely used and the United States' own best interest served. We specifically suggest that the program include Cuba, Grenada, and Nicaragua, that it address the infrastructural needs of the area, that the investment incentives be tied to progressive levels of indigenous employment, and that the monies allocated to El Salvador and the American Institute for Labor Development be reduced and redirected toward the Eastern Caribbean.

We hope that you will consider our statement in your deliberations; and we are available to answer or clarify any question or portion of this submission.

PREPARED STATEMENT OF GULF+WESTERN INDUSTRIES, INC., WASHINGTON, D.C.

Gulf+Western Industries is pleased to present to this Committee its views on the Caribbean Basin Economic Recovery Act. Gulf+Western is a broadly diversified corporation which employs close to 70,000 people in the United States. We submit this testimony because we believe our country must recognize the importance of the Caribbean Basin region and the need to strengthen our mutual ties.

We wish to commend the Administration for its foresight in developing an integrated and comprehensive program—one which addresses the vital interests of both the United States and the Caribbean Basin countries. We believe the Caribbean Basin Economic Recovery Act places proper emphasis on the role of the private sector in fostering economic growth throughout the region. It recognizes the potential for increased trade between the Caribbean countries and the United States, and the proximity of the Caribbean region makes greater trade interdependence a logical and important goal.

The nations of the Caribbean have differing political, social and economic characteristics. Their needs cannot be addressed in a single way, nor are there any simple solutions to their complex problems. Yet, a common denominator exists. That common denominator is the need to achieve economic stability and real gains for the peoples of the region. The countries of the Caribbean need increased investment and capital commitment. Their economies need diversification. Their people need jobs.

We speak from practical experience. For 15 years, particularly in the Dominican Republic, Gulf + Western has invested in and grown with the Caribbean region. Our experience shows that free enterprise can work for the benefit of the developing world—and this is the very essence of the Caribbean Basis program now before you.

The Dominican Republic is a free and democratic nation. Its development strategy is to create a more vigorous and stable economy through industrial and agricultural diversification. Its goal is the creation of job opportunities for the people of this nation of almost 6 million.

Historically, the economy of the Dominican Republic has relied on sugar as its predominant crop. This has not been by choice, but by necessity. The climate and poor arability of much of the soil made sugar the only feasible crop. But while the Dominican economy has been dependent on sugar for its income, it has been, conversely, even more dependent on Mexico and OPEC for its petroleum supplies.

The impact on the Dominican economy of recent changes in world oil and sugar prices has been dramatic. The resulting economic squeeze has severely hampered the Dominican Republic's ability to bring about industrial and agricultural diversification.

Specifically, at 1973 average world prices for sugar and imported crude oil, the Dominican Republic had to export 27.5 pounds of sugar in order to import a single barrel of oil. In 1974, the cost of one barrel of oil equalled 32 pounds of sugar. By 1981, this equivalent amounted to 192 pounds of sugar. But at current depressed sugar prices, the Dominican Republic must export about 300 pounds of sugar to import one barrel of oil, even though the cost of oil has stabilized.

The above figures are so striking that they need no elaboration. They help demonstrate, however, that while sugar will always be a mainstay for the Dominican Republic, the country needs economic diversification and new sources of foreign exchange—sources less susceptible to the vagaries of commodity pricing. The concept of the Caribbean Basin Economic Recovery Act fits the needs of a country such as the Dominican Republic and can speed its progress toward economic diversification. This progress is important for the United States because of our close political, geographical and strategic ties to the Dominican Republic and the Caribbean area. Santo Domingo, the capital of the Dominican Republic is only 250 miles from San Juan; 1,000 miles from Havana; and 1,200 miles from Miami.

Gulf + Western's experience in the Dominican Republic, while certainly unique to its specific circumstances, shows that private enterprise can provide the capital investment, skills and creativity which can contribute to the growth of a developing country. What is essential in all circumstances is a sensitivity to the needs and aspirations of the people of the host country.

Gulf + Western's Dominican operations began in 1967 when it acquired the South Puerto Rico Sugar Company. In the Dominican Republic this included acquisition of the La Romana sugar mill and supporting sugar cane and pasture land. Sugar operations were concentrated in the eastern region of the country, an area then in the throes of economic crisis and hardship. Unemployment was rising and the La Romana sugar mill was at a virtual standstill.

Moreover, G + W inherited a long legacy of neglect, poor housing for agricultural workers, meager health delivery services and virtually non-existent schooling for children. All of these factors created an instability which cast a shadow on the future of the region. Gulf + Western brought to the area a strong commitment to economic development and faith in the future of the Dominican nation.

Since 1967, Gulf + Western has invested over $100 million in the Dominican Republic. It has reinvested virtually all of its profits from the area. It has upgraded sugar operations, created a tourist industry from scratch, established a free trade zone and worked to improve the quality of life for its employees. Gulf + Western is the largest tax payer in the Dominican Republic as well as its largest private employer.

Key to the success of Gulf + Western's efforts has been the determination that citizens of the Dominican Republic must be the ones to operate and manage G + W's Dominican ventures. Under the Dominicanization program, virtually all senior management positions are filled by Dominican nationals, many of them educated and trained at U.S. colleges and universities. These Dominican management leaders believe in the future of their country and in a free enterprise system.

What we and the Dominican people have achieved in La Romana can serve as an example throughout the Caribbean Basin. To give this Committee an overview of these achievements, a brief review is in order.

PRODUCTIVITY AT WORK—SUGAR OPERATIONS

In 1967, production at the La Romana mill was 228,000 tons of raw sugar and in 1968 it dropped to less than 150,000 tons. Since then, Gulf+Western has invested more than $12 million in modernization and expansion of the sugar mill. Today, the G+W mill accounts for about one-third of the total sugar output of the Dominican Republic, some 400,000 tons a year.

In 1967, even at peak season, the mill and cane fields employed 16,000 workers. Today, at peak season, this number has increased by almost 50 percent. Also adding to the economic importance of the operations are by-products such as molasses, cachaza for fertilizer and furfural (a chemical produced from bagasse, a sugar cane residue). The bagasse is also used as fuel to produce steam to generate electricity for the mill. This reduces the Dominican need for imported oil.

We have shared the fruits of our agricultural research with the small farmers of the country so they, too, might benefit from new crop strains and better growing practices. As we have made technological advances we have shared them with local farmers, agricultural schools, and government agencies.

Our improved productivity has meant that in the last 5 years alone, from export of sugar, molasses and furfural, Gulf+Western has generated more than one-half billion dollars in foreign exchange earnings for the Dominican Republic.

CREATING NEW OPPORTUNITIES—THE FREE TRADE ZONE

Historically, the only major employer in La Romana had been the sugar mill and its related activities. Since 1967, job creation in new areas of enterprise has been one of Gulf+Western's major priorities, and at the request of the Dominican Government, G+W set aside 28 acres of its land for the creation of the La Romana Free Trade Zone. The Dominican Government offers special tax and duty exemptions to manufacturers who locate in the Free Zone, but goods from the Zone are subject to import duties and tariffs in the United States or other foreign countries.

Gulf+Western has provided professional services to the Free Zone and $4 million in capital to construct roads and facilities. Today, 20 U.S. companies operate in the Free Zone, including two G+W subsidiaries. New jobs have been created in the Zone for 10,000 workers, and the "multiplier effect" of this has stimulated growth in La Romana's local economy outside of the Zone.

The Free Zone does more than create jobs. It develops new skills, supports vocational training and gives Dominican citizens hands-on management experience.

The Free Zone operates on a 30-year contract with the Dominican Government. At the end of the contract, the land will become government property. Any profits from the management of the zone go directly to community programs in La Romana—programs which support health, nutrition and social needs. Encouraged by Gulf+Western's experience in La Romana, the Dominican Government has created Free Trade Zones in other parts of the country. Together, these have already created thousands of new job opportunities.

DEVELOPING NEW IDEAS—TOURISM

In 1967, despite its inherent attractiveness of climate, scenic beauty and proximity to the United States, the Dominican Republic was virtually without a tourist industry. Since then, Gulf+Western has invested $40 million in hotels and vacation resorts and has pioneered a new industry for the country—tourism. Most of G+W's investment has come from its Dominican earnings. While the vacation resorts are not yet profitable for Gulf+Western, they already generate important foreign currency income for the Dominican Republic.

In 1973, on marginal land not suitable for agricultural use, Gulf+Western opened Casa de Campo, now one of the Caribbean's leading resort areas. Gulf+Western tourist operations today provide direct employment for close to 3,000 Dominicans.

Gulf+Western is particularly proud of a project called Altos de Chavon. This is an artist's village which G+W is building in La Romana. Its beautiful architecture features an archeological museum, art galleries, shops and restaurants. It is a setting which provides for the creative expression of the Dominican Republic's finest artisans and writers.

DIVERSIFICATION WHERE WE CAN—AGRICULTURE AND FOOD

To assist the Dominican Republic in its agricultural diversification efforts, Gulf+Western has supported the research of agronomists who have worked to adapt suitable varieties of potatoes, beans, key limes, casavva and plantains to marginal soils. A subsidiary company, Farmers Produce, was also created to distribute to employees at affordable prices these newly grown crops as a supplement to their normal diet.

In our fiscal year 1981, Farmers Produce grew over 2.2 million pounds of vegetables and distributed nearly 1 million pounds to workers at prices considerably below the cost of production.

Gulf+Western also has endeavored to enhance the local production of milk. In addition to a small dairy herd of its own, G+W has developed a cross-breeding program and is helping local farmers to create their own dairy herds. Research and hard work have also produced the famous "Romana Red" breed of hardy beef cattle which can withstand the dry climate, intense heat, sparse vegetation and rocky terrain of the Dominican Republic's Eastern Region.

RESPONSIBILITY IN ACTION—DESARROLLO SOCIAL

Gulf+Western has consistently devoted a portion of its resources in the Dominican Republic to human and community development. We believe this, too, is a free enterprise responsibility.

We have built and modernized health facilities in La Romana, and have improved rural medical care delivery through the use of mobile medical units. With the technical assistance of Mt. Sinai School of Medicine in New York, we are developing a system of rural health clinics.

We have assured pure drinking water for the city of La Romana, contributed many million dollars to local schools and supported scholarships for Dominican students. The La Romana region now has one of the highest literary and employment rates in all of the Dominican Republic.

Gulf+Western has also donated 57,000 acres to the Dominican State and its Agrarian Reform Institute. Another 16,000 acres has been given to independent sugar growers, a workers' cooperative and to individual G+W workers. The company has also built 2,500 new houses for cane cutters, and intends to build 2,500 more.

In 1980, Gulf+Western launched a 10-year comprehensive Social Development Program—*Desarrollo Social.* We have made this effort a top management priority and are coordinating the elements of the program into a cohesive approach in order to further improve the well-being of the cane workers and their families.

CONCLUSION

We have focused on Gulf+Western's activities in the Dominican Republic because we believe they are a dramatic and living illustration of the important role private industry, in cooperation with a host government, can play in establishing a base of stability in a crucial region of the developing world.

The Caribbean Basin Economic Recovery Act recognizes the value of the private sector as a partner in the economic development of the region. The Dominican Free Trade Zone experience should lend encouragement to programs which develop an economic incentive for production of exports. U.S. tax incentives for foreign investment should spur construction of new plants and create new jobs in the Caribbean Basin. Economic progress in the Caribbean will be good for all of us.

In presenting the Caribbean Basin Initiative, President Reagan urged us to "return to a common vision". He said: "Today more than ever, the compassionate, creative peoples of the Americas have an opportunity to stand together, to overcome injustice, hatred and oppression, and to build a better life for all the Americas." We agree. Gulf+Western Industries applauds the Caribbean Basin Initiative and urges your favorable consideration of the Caribbean Basin Economic Recovery Act.

PREPARED STATEMENT OF THE NATIONAL ASSOCIATION OF BEVERAGE IMPORTERS INC., WASHINGTON, D.C.

In regard to S. 2237 or H.R. 5900, the Caribbean Basin Bills, we are addressing you on behalf of the members of the National Association of Beverage Importers in general support of the Caribbean Basin Economic Recovery Act.

The National Association of Beverage Importers, hereafter NABI, is the national trade association comprising in its membership over 100 importers of wine, spirits and beer. Together, this membership is responsible for the importation of somewhere over 80 percent of the distilled spirits imports into the United States.

NABI stands for the principle of free trade. Accordingly, NABI goes on record with you and your Committee as generally in favor of Title I of S. 2237 and H.R. 5900, which propose duty-free treatment to the products of beneficiary counties. NABI's specific interest under this Section is the prospective granting of duty-free treatment to rum. There is not universal support for the concept of granting duty-free treatment to rum from beneficiary countries. However, active pre-introduction consultations with the Governments of Puerto Rico and the Virgin Islands have produced Section 301 of the Bill, which would provide for the payment to Puerto Rico and the United States Virgin Islands of excise taxes collected on imported rum.

It is understandable that these governments are concerned over the prospective reduction of the imported rum duty of $1.62 per proof gallon to zero. However, this would be merely giving equal treatment in the market place to all Caribbean rums, since neither Puerto Rican rum or Virgin Islands rum currently bear any import duty.

The current competitive situation between duty-paid imports of rum and shipments of rum to the United States from Puerto Rico and the Virgin Islands is quite one-sided. Total shipments from Puerto Rico and the Virgin Islands in 1981 amounted to 24.3 million proof gallons. During this same year, total shipments of duty-paid imports of rum amounted to just over 1 million gallons. In terms of competitive position, this shows Puerto Rican and Virgin Island rum with 96 percent of the market and all other rum constituting 4 percent of the market. An import penetration level of 4 percent can hardly be considered significant in terms of potential harm to the Puerto Rican and Virgin Islands' industry. This is particularly true where we do not have a dumping situation, where we do not have a subsidy or countervailing situation, but only have a situation where the various rums would be competing on equal tariff footing.

To illustrate further the competitive situation, it would be interesting for a moment to assume that Caribbean rums were allegedly being "dumped" into the United States market and/or these rums were the subject of a subsidy. If procedures were initiated under Section 702 of the Tariff Act of 1930, or Section 732 thereof, as amended by the Trade Agreements Act of 1979, the International Trade Commission would have to initiate an investigation to determine whether "an industry is materially injured or threatened with material injury or the establishment of an industry in the United States is materially retarded by reason of imports of such merchandise." By viture of the 4 percent penetration level, there would appear to be no grounds for imposing either a countervailing duty or an anti-dumping duty.

It seems logical to assume that the Puerto Rican and Virgin Islands rum producers currently stand in no better stead in opposing duty equalization, which is the instant case, than they would in pressing for countervailing or anti-dumping duties as we have illustrated above in the hypothetical situation.

The fact of the matter is that duties on imported rum have remained at relatively high levels for 30 years. The following table showing import duties on bottled distilled spirits since Repeal shows that rum duties in 1952 were higher than any other distilled spirits import duties. This situation has continued to the present day, with the exception of certain penalty rates on bottled tequila and imported brandy and vodka with certain value designations. Currently, in 1982, the rum duty is roughly three times the average duty on other major categories of imported spirits.

BASIC IMPORT DUTIES ON BOTTLED DISTILLED SPIRITS SINCE REPEAL [1]

	1933	1943	1952	1963	1972	1982	1987
Canadian whisky	$5	$2.50	$1.25	$1.25	$0.62	$0.48	$0.25
Scotch and Irish whisky	5	2.50	1.50	1.02	.51	.39	.20
Rum	5	2.50	1.75	1.75	1.75	1.62	1.40
Gin	5	2.50	1.25	1.00	.50	.50	.50
Brandy	5	2.50	1.25	1.25	.62	.97	.50
Cordials and liqueurs	5	2.50	1.25	1.00	.50	.50	.50
Tequila	5	2.50	1.25	1.25	1.25	2.27	2.27
Vodka	5	2.50	1.25	1.25	1.25	.97	.50

---

[1] The table is illustrative of the broad duty situation on spirits. Being incomplete, it does not show all categories of distilled spirits, nor bulk rate, nor "penalty rates" on such items as brandy, vodka, etc.

The only relief given to imported rums since 1952 has been a 20 percent duty reduction, staged over 8 years, as a result of the so-called Tokyo Round. Reproduced below are the staged rates of duty for rum between 1979 and 1987:

	1979	1980	1981	1982	1983	1984	1985	1986	1987
Rum:									
Bottled	$1.75	$1.70	$1.66	$1.62	$1.57	$1.53	$1.48	$1.44	$1.40
Bulk	1.75	1.70	1.66	1.62	1.57	1.53	1.48	1.44	1.40

Even after the full implementation of the 20 percent reduction of the duty on rum, rum would still bear a duty of nearly 300 percent of the basic duty on gin, brandy, cordials, and vodka.

Thus far in the illustrations given, we have dealt with rum as a separate category from other distilled spirits. Were there to be an investigation of material injury by the International Trade Commission, there would have to be a determination of the "relevant market" for distilled spirits, in terms of cross-competition between the various categories. Under zero duty structure, the primary competitive market as between Puerto Rican rum, Virgin Islands rum, and other Caribbean rums, would be the rum market as such. However, history has shown an overlap in competition within the entire spectrum of the beverage alcohol market. Thus, to a greater or lesser extent the broad category of rum competes currently most closely with the broad category of vodka. However, there is also cross-competition of rum between whiskies, brandy, gin, and other categories of distilled spirits. Beyond this, rum is in competition for the consumer's palate with wines and beers.

It is reasonable to assume that by elimination of the prohibitive duty, and in fact all duty on rum, the Caribbean rums would be in a better position to widen the market for rum generally within the United States, and also provide competition not only within the limited distilled spirits category, but within the entire category of beverage alcohol products—constituting wine, spirits and beer.

SUMMARY

In view of the clear protection to the governments of Puerto Rico and the Virgin Islands provided by Section 302 of the Bills, the governments of these commonwealths should be adequately compensated. Likewise, since Puerto Rican and Virgin Islands rum would compete on an equal footing with Caribbean rum, protestations of impending disaster by Puerto Rican and Virgin Islands producers are based only on conjecture. The foregoing conjecture is particularly important since the relevant competitive market would not be limited to rum alone, but would cover the entire spectrum of beverage alcohol products.

PREPARED STATEMENT OF THE INTERRELIGIOUS TASKFORCE ON U.S. FOOD POLICY, WASHINGTON, D.C.

INTRODUCTION

This statement of the Interreligious Taskforce on U.S. Food Policy[1] offers a critique of the Administration's Caribbean Basin Initiative (CBI) and some recommendations necessary to make the CBI proposal, from our point of view, supportable. Our assessment reflects monitoring of Senate and House hearings and discussions with Administration officials and development professionals in the academic, religious, and private and voluntary communities here and abroad.

Our overall conclusion is that the CBI proposal deserves enactment if: The economic aid to be offered is comprised primarily of development aid rather than security assistance under the Economic Support Fund; the trade incentives are structured in ways more beneficial to the Caribbean Basin countries; and the investment incentives provided to U.S. businesses are deleted.

---

[1] The Interreligious Taskforce on U.S. Food Policy, a coalition of over two dozen national Protestant, Roman Catholic, Jewish and ecumenical agencies whose representatives work together for justice for the world's poor and hungry people. While the Taskforce speaks for itself only and not for the religious agencies which participate in its work, Taskforce statements are consistent with public policy recommendations adopted by these agencies.

We offer specific recommendations for changes which we urge Congress to make along these lines.

I. An overall assessment

As advocates of self-help development, we welcome the Administration's intent to launch a larger and more focused effort to help our Caribbean and Central American neighbors to help themselves. The growing political turmoil in Central America which has drawn world attention to the region in recent months has also highlighted the need for what the President has called "the achievement of a lasting political and social tranquility based on freedom and justice." The Administration's proposal offers the opportunity to shape a U.S. response to the area's needs which relies more on economic than military assistance. We support such an emphasis, not only in this instance but in U.S. dealings with Third World nations generally.

However, we have serious questions about some of the aid, trade, and investment proposals in the CBI as well as about the assumptions upon which these proposals appear to be based.

First, the Administration's plan assumes that the current crisis is the result primarily of the unprecedented convergence in recent years of extraordinary factors. Sharply higher prices for imported oil, coupled with depressed prices for commodity exports, are indisputably placing severe strains on the economies of the region. The current crisis, however, has roots that go far deeper—into the area's political, social, and economic history. Structural inequities, both in the international economic system and within individual countries, have had and continue to have a profound impact on these economies. To understand fully and address current instability, then, one needs to graph not only the worsening balance of payments but also the seriously skewed and chronic patterns of landholding and income distribution.

Second, the CBI seems to assume that economic growth alone is a sufficient remedy for the faltering economic prospects of many of the region's countries. However, past development efforts throughout the Third World have demonstrated that economic growth is not enough; what is needed is growth with equity, as the 1973 New Directions reforms in U.S. foreign aid policy recognized. Congressman Jerry M. Patterson made the point well at hearings last year by his Subcommittee on International Development Institutions and Finance.

"We need to make sure that the poorest people in [Third World] countries have opportunities to participate in their countries' development, that they have a genuine stake in their societies and some real avenues for hope. The people on the economic and geographic periphery in these countries often tend to be left out by the natural patterns of growth in their societies. Sometimes the natural pattern of growth even worsens their situation. The historical record seems to show that unbalanced growth can lead to serious problems of social and political instability."

In this context, the omission in the CBI of any mention of the poor is more than oversight; it is a fundamental flaw in the Administration's approach.

The third assumption with which we take issue is that the threat of growing political and social instability comes mainly from outside "terrorism and subversion." More compelling, we believe, is the view that such ferment is born primarily of unsatisfied basic human needs. The Commission on World Hunger put it well: "The most potentially explosive force in the world today is the frustrated desire of poor people to attain a decent standard of living." The Administration's tendency to view what are essentially problems of underdevelopment through East-West lenses seems to us and to respected leaders in the region likely to produce policies and programs which fail to achieve the peace and security which the Administration rightly seeks.

Finally, the Administration seems to downplay the diversity of the country situations in the Caribbean Region, if indeed there be such a region. Some countries have rates of literacy, life expectancy and infant mortality which place them high on the "Physical Quality of Life" (PQLI) index. Cuba's PQLI is 93, Barbados' 92, Grenada's 86, as contrasted with Nicaragua at 66, Guatemala at 59, and Haiti at 39. (Puerto Rico is at 92, the United States as a whole at 96.) Some countries such as Costa Rica and Jamaica have strong democratic traditions; others such as El Salvador and Guatemala have authoritarian and repressive traditions. Some countries are virtually self-reliant in food production; others are far more dependent on the international food marketplace. Some countries have serious balance of payments problems; others have been less seriously affected by changes in the international economy and a few even have net trade balances in their favor. Clearly, U.S. relationships to countries so diverse need to be more individually tailored than simply varying the amount of balance of payments support allows.

In our view, many of the problems presently facing the Caribbean region are not unlike those confronting countries throughout the Third World. Our recommendations for revising the CBI reflect some of the development learnings of past decades, particularly as related to the needs of the poor. We suggest, in short, that the CBI seek to stimulate broad-based economic growth in the region through:

Economic assistance in the form of development aid rather than Economic Support Funds distributed more equitably throughout the region and supported by a five-year commitment;

Trade incentives geared to long-term development needs with special attention to agricultural production for local consumption and small scale enterprise; and

Continued and enhanced U.S. support of multilateral and regional mechanisms in place of the proposed reliance on bilateral arrangements.

II. Economic aid

The CBI includes no development assistance. Instead, its full $350 million is Economic Support Funds (ESF) to be provided as balance of payments support, primarily for financing private sector imports. We doubt that ESF assistance will have appreciable benefits on the long-term development prospects of the region, nor prove very constructive even in the shorter term. The Administration has indicated that it would seek to link ESF transfers to Standby or Extended Fund Facility arrangements which countries have or are negotiating with the IMF. However, not all countries may have such arrangements in place by the end of FY 1982 and some such IMF arrangements have worked disproportionate hardships on the poor.

While many of the region's countries do have *bona fide* balance of payments problems, we question whether $350 million would begin to offset capital flight from the region, conservatively estimated at approximately $500 million during each of the past two years. Nor have balance of payments infusions in the past been noted for success in increasing food production for local consumption or in generating jobs for the rural and urban poor.

It would be unrealistic to recommend that the entire $350 million in CBI economic aid be converted into development assistance and directed exclusively toward the basic human needs of the poor. We understand the Administration's desire to find mechanisms allowing for quicker disbursement of funds than does development assistance project aid. We are nevertheless concerned that the Administration expects $280 million to be outlaid in FY 1982. If the CBI were to become law tomorrow, the Administration would have some difficulty in instituting adequate controls to avoid problems encountered by quick-disbursing ESF funds in the past. If the CBI becomes law this summer or next fall, the problems are likely to be compounded.

The shorter-term U.S. foreign policy context in which ESF is provided severely limits its utility to the poor. *We therefore urge Congress to:*

Convert a significant portion of the $350 million in ESF to development aid in the form of sectoral grants and/or loans.—What we have in mind is along the lines of AID's agriculture sector lending to Colombia, Guatemala, and Costa Rica in the early 1970's. The lending involved development assistance of an intermediate sort—fast disbursing like ESF balance of payments transfers yet focused on the agricultural sector and, more precisely, the small farmer sub-sector. Ground rules negotiated with each country fixed measurable objectives such as increased production of crops for local consumption by small farmers and strengthened governmental management of agricultural institutions. Multiyear loans, or annual loans extended on the basis of performance, were available to cover local and foreign exchange costs of specified programs or projects.

That portion of CBI's economic aid not converted to development assistance could be used as balance of payments support for carefully selected countries with bona fide foreign exchange problems such as Costa Rica. This approach is in fact recommended by one Country Development Strategy Statement (CDSS) for a Central American nation and suggests that local currencies from Public Law 480 sales and ESF balance of payments transfers be used for local costs of development projects which were specifically focused on the poor. Countries such as Haiti, where even project aid, much less more indiscriminate resource transfers, have not been put to good development uses in the past, might receive sectoral development assistance instead.

Rearrange the country allocations of economic aid.—The proposed allocation of $128 million to El Salvador creates serious imbalances in the package as a whole. Quite apart from the particulars of the country involved, it seems ill-advised for more than one-third of the CBI's economic aid to go to a single country (in this case, one having only one-eighth of the Caribbean Basin Region's 39 million people).

Regarding El Salvador in particular, we favor a prohibition on U.S. economic aid (excepting humanitarian assistance), as well as on military assistance. As long as the civil war persists, economic aid is unlikely to promote development or even to reach its intended beneficiaries.

It is also ill-advised, in our view, for $323 million of the $350 million in economic aid to go to just five countries: Costa Rica, Dominican Republic, Honduras, Jamaica, and El Salvador. Only $10 million would go to the smaller Caribbean islands. We believe that both on the merits and as a matter of strategy, Nicaragua and Grenada should be included in the aid package. Their exclusion would likely exacerbate tensions between the United States and the region. It would also reinforce the perception that the U.S. concern for the region is highly selective along political and economic ideology lines.

We believe that it would be wise for the Congress to earmark legislatively the country allocations of CBI aid. The figures cited in the Administration's CBI presentation materials are illustrative rather than legally binding. It would be unfortunate for the economic aid package to serve as an emergency fund for Caribbean Basin contingencies. We would like to see country allocations based on the provision of Section 102 of the Foreign Assistance Act—which accords priority to concentrating aid "in countries which will make the most effective use of such assistance to help satisfy basic human needs of poor people through equitable growth."

Earmark funds for small-scale business support and for agencies engaged in people-to-people efforts.—A key segment of the private sector in many CBI countries is composed of "micro-entrepreneurs"—small-scale business people employing just a few workers. Although such persons frequently have difficulty obtaining credit and capital, their efforts are crucial to job creation and national economic progress. They are largely neglected by other programs such as OPIC, AID's private enterprise efforts, and the International Finance Corporation. They may even be negatively affected by the trade and investment stimulated by the CBI. A revolving loan fund which might ultimately become self-sustaining would be a sound investment in stimulating small businesses in the region.

Many people-to-people organizations are already involved on a day-to-day basis with the poor in the region. These include U.S. private and voluntary organizations and cooperatives, the Inter-American Foundation, and the Peace Corps. An initial sampling of U.S. PVO's, cooperatives, and Title XII educational institutions found projects already drawn up and awaiting funding, along with existing activities which could be expanded, totaling roughly $70 million, provided that funds could be obligated in FY 1983 as well as FY 1982. An additional $5–10 million might be utilized by the Inter-American Foundation and the Peace Corps. With reasonably firm assurances that $75 million could be well used, an earmark of $50 million for people-to-people organizations would seem eminently justified.

We would caution the Congress against providing, and PVOs against accepting, funds for these purposes under an ESF rather than a development assistance rubric. While on rare occasions ESF funds have been earmarked for PVOs, the people-to-people activities of such groups are more open to politicization where ESF funds are involved. Moreover, the high-visibility, quick disbursing ESF mode seems ill-suited to the longer term development objectives of development assistance—and of people-to-people organizations themselves.

Provide support for regional and international economic and social organizations and activities.—Despite descriptions of the CBI as a "multilateral action program," it is basically a bilateral program offering bilateral aid, bilateral trade concessions, and bilateral investment incentives. Support for regional structures such as the Caribbean Common Market and activities of the Organization of American States (OAS), such as the Pan-American-Health Organization and the OAS voluntary funds for development (e.g., the Special Development Assistance Funds) would give the CBI a more genuinely regional character, encouraging regional economic and development cooperation, and defusing the possibility of economic competitiveness among CBI countries.

By the same token, the Administration should broaden the character of its Initiative to take advantage of the resources of multilateral organizations. The World Bank and the Inter-American Development Bank (IDB), particularly its Fund for Special Operations (FSO), have undertaken new commitments to CBI countries during the past two years valued at $1.6 billion. While some of this funding comes from the United States, its scale far exceeds the U.S. bilateral assistance, current or supplementary, and compares favorably with the region's current account deficit of $4 billion. The Administration has announced its intention to reduce "drastically" its contribution to the Sixth Replenishment of the FSO, covering calendar years 1983–86. An FSO contribution at current levels of $175 million annually would be a good investment in CBI objectives.

We note that the Administration has decided against requesting $500,000 for the Regional Seas Action Program for the Caribbean of the U.N. Environment Program (UNEP). Moreover, the United States is not participating in the U.N. World Food Council's food sector strategy exercise with countries in the Caribbean Basin region. The Administration could enhance the credibility of its commitment to the region by the creative use of these and other existing regional and multilateral agencies already active there.

Convert the economic aid package into a longer-term commitment of at least five years.—The CBI envisions only a one-year infusion of economic aid, most of it to be disbursed by October 1 of this year. Under the ongoing foreign aid program, the Administration is requesting for FY 1983 a tiny increase (about $6 million) in development assistance and an increase of about $186 million in ESF over FY 1982 (excluding the CBI supplemental), with Public Law 480 remaining about constant. If the CBI is added to the FY 1982 levels of economic assistance (development, ESF and Public Law 480), there is actually a decrease of about $160 million in economic aid for the Caribbean Basin in FY 1983. Moreover, the proportion of development assistance as compared with ESF declines markedly as the three figures on page 8 demonstrate.

While the charts are illustrative of the scale of the increases in Caribbean Region funding over the past three years, longer term comparisons are even more startling. Total U.S. aid (military and economic) to El Salvador during the quarter century from FY 1946 through FY 1980 was $245.9 million. U.S. aid requested for FY 1982 is $300 million (including $128 million in the CBI), for FY 1983 $226.2 (with a supplementary military aid request expected). If current insecurity is the result of decades of cumulative neglect of fundamental economic and social problems, how much can be expected by a single, one-shot transfer of U.S. aid?

If aid is to have significant developmental impact, a multiyear commitment is required. Such a commitment is, in our view, essential to the supportability of the CBI package. An increase in assistance to the region should not be made at the cost of aid to other regions such as the Sahel and Southeast Asia. Extending the aid commitment is fundamental to the Administration's success in reaching its own objectives.

III. Trade

The Administration's CBI request proposes "one-way free trade" from the Caribbean Basin, allowing exports from qualifying CBI countries to enter the United States duty-free for a twelve-year period. Sugar exports would be subject to specific limits; textiles and apparel would be largely ineligible for duty-free treatment but are promised liberalized quotas in the future. At present, 87 percent of the exports from the CBI region already enter the United States duty-free under the Generalized System of Preferences.

Modest increases in earnings can be expected from the modified duty-free status for sugar. Assessments differ, however, regarding the extent to which this provision would generate new sugar production in the Caribbean Region. Liberalized quotas for textile exports from the region could also be expected to produce increased earnings. However, exempting textiles and apparel from duty-free treatment limits the CBI's usefulness to the region since these items are among the relatively few labor-intensive manufactured products which could be readily produced with manageable start-up costs there.

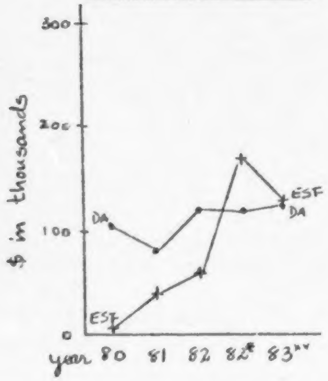
Under the CBI, duty-free status would be extended to an additional 5-percent of current exports, estimated at a 1980 annual level of $500 million. While the

Administration has been reluctant to make projections about the likely impact of the CBI, one private source has estimated that increases in export earnings during the first year of the program could be expected to total no more than $40 million, with the annual increase possibly reaching $100 million by the third year.

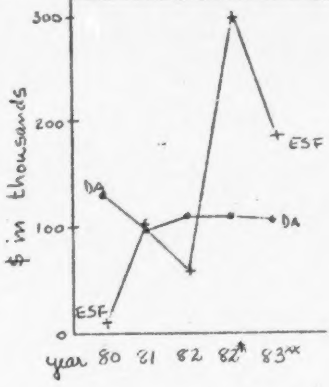
While generally sympathetic in principle to expanded trade, we have several concerns regarding the CBI trade provisions:

United States Bilateral Assistance to CBI Countries

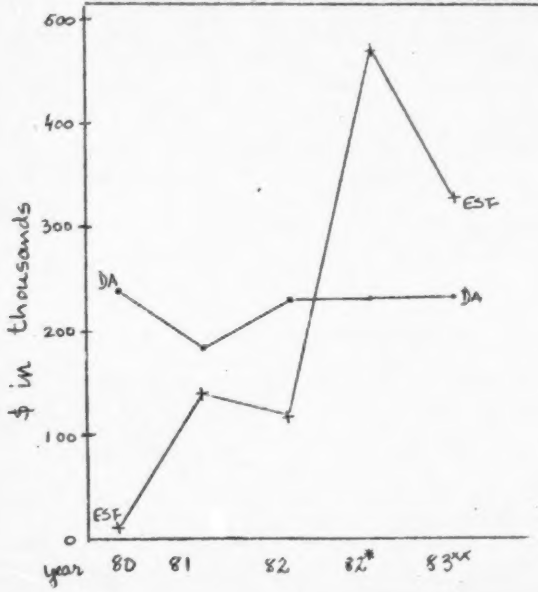
Caribbean Countries (Fig. 1)



Central American Countries (Fig. 2)



Caribbean and Central American Countries Combined (Fig. 3)



Key

- • Development Assistance
- + Economic Support Fund
- * 82 with supplemental
- ** 83 as requested by the Administration

First, we have serious reservations about increasing incentives for agricultural production for export.—We do not oppose increased Third World agricultural exports per se. However, the high malnutrition and widespread hunger found in many CBI countries should make food production for local consumption a top development priority. Encouragement of export-oriented agriculture may subvert this priority unless countervailing incentives are included. Special provisions are needed to assure production and availability of basic goods and services as well as measures to assure the ability of the poor majority to secure such goods. The latter requires a targeting of benefits to guarantee participation of the poor in productive sectors. While what a country produces is ultimately its own choice, it would be tragic for the United States to structure incentives which, by stimulating increased production of beef, sugar, tobacco, cotton, and other crops for the U.S. market, result in increased malnutrition among the region's poorest people.

In the interest of assuring the maximum benefit to the poor in the region, we believe that a proposal by a representative of the U.S. Cane Sugar Refiners Association in earlier testimony before the House Ways and Means Subcommittee on Trade deserves consideration. In view of the impact of increased production on already low international sugar prices, the representative urged that sugar duties for large producers be maintained, with equivalent revenues being rebated directly to the governments. This might encourage the three affected countries, Dominican Republic, Panama, and Guatemala to use the additional funds to finance economic activities consistent with long-term development goals.

Second, we believe that the United States ought to offer CBI countries assistance in developing and coordinating their export expansion plans.—It is not clear to us whether the Administration intends to do this. Trade expansion should be carefully planned and coordinated to maximize benefits and minimize risks to the countries involved. Assistance in determining the size and accessibility of potential markets may be a crucial element in the value of proposed trade provisions to interested CBI countries. For example, a recent USDA study predicts that by 1990 the United States will be able to meet all of its demands for sugar with domestically produced high-fructose corn syrup. Given this projection, CBI countries might be well-advised not to invest significantly in increased sugar production and milling capacity.

Further increased dependence on a single trading partner such as the United States may prove ill-advised in the long run. Recent examples of "voluntary" quantitative limits on Japanese televisions and cars and on Korean footwear exported to the United States may be an understandable cause of concern for Caribbean Basin countries. More emphasis should be given, by the United States, and the CBI countries themselves, to regional as distinct from bilateral trade and development structures and arrangements. We would like to see pragmatic questions of this sort receive more attention from the Congress in its review of the CBI proposal.

Third, we are concerned about the nature of the investment that is likely to result from the proposed reduction in the local-content value-added requirement from 35 percent to 25 percent.—Assembly-type operations may generate new employment in the region but may not contribute sufficiently to local economies faced with the task of long-term self-reliant development. Whether such investment best serves the general public interest rather than narrow private interests is an important question. There is considerable evidence to suggest that the interests of large companies can on occasion override general welfare considerations in small countries.

Fourth, we believe that U.S. workers and farmers should be protected against the possible negative domestic economic consequences of the CBI.—Trade adjustment assistance and farm price support programs which have offered extremely modest benefits at best are now being cut back. With U.S. unemployment approaching post-depression record levels and U.S. agricultural prices seriously depressed, it is doubly important that workers and farmers in this country not bear the brunt of the cost of increased imports from the Caribbean Basin. We urge Congress to take steps to minimize U.S. employment and farm income losses which may occur from the CBI, whatever their scale. We also urge Congress and the Administration to develop and implement programs which involve longer-term remedies: full employment for American workers and assistance for family-operated American farms.

To summarize, we believe that the trade provisions of the CBI proposal could be refined so as to accommodate the concerns we have raised. If they are not, the negative side effects of the CBI's trade provisions might well outweigh the benefits.

IV. Investment

The Administration proposes to extend to U.S. corporations the same 10 percent investment tax credit now allowed for new investments in domestic plant and equipment for their ventures in the Caribbean Region. The credit would be for a five-year period and would also apply to U.S. shareholders with at least a 5 percent interest in foreign corporations. While the investment proposal is not before this Committee as such, it may be useful for us to state our views.

We believe that the tax credit proposal should be scrapped.—The credit would unfairly increase the tax burden for all U.S. taxpayers in order to subsidize offshore investments by wealthy corporations. Past performance of tax incentives suggest that they are a relatively ineffective and inefficient means of inducing investment in developing countries. Studies of the domestic tax credit, for example, indicate that new investment totaled only three-quarters of the value of taxes foregone by the U.S. Treasury. This is accounted for in part because many of the investments which would benefit would not be new ones but rather those which are already contemplated. The cost of the tax credit under the CBI proposal, estimated at $40 million, would therefore be better used for more direct measures.

We note that guidelines for determining eligibility of potential CBI beneficiaries for trade benefits include "the degree to which such country is undertaking self-help measures to promote its own economic development." Policy reforms at the sectoral level may effectively serve to stimulate new investment. This, in our view, is a more useful approach than the proposed tax incentive. At the same time we are concerned that "self-help" not be applied exclusively to fiscal and monetary reform but also include criteria for determining a country's commitment and progress in meeting basic human needs.

The Administration's proposal has no safeguards to assure that investments which receive tax incentives are limited to those likely to have positive, or at least neutral, consequences for the poor. While some types of foreign investment could benefit unemployed and underemployed workers in the region, the history of Central America and the Caribbean is full of examples of corporate exploitation which has contributed significantly to today's political turmoil and anti-American sentiment in the region. Corporations with sufficient money and power to bring down governments and subvert regional organizations should not be able to lay claim to new tax subsidies.

More generally, we believe that the tax credit proposal cannot compensate for the serious lack of investor confidence in the region, demonstrated by continued capital flight. Increased tax incentives and risk protection will not, in our view, overcome the fear of political instability which undermines investor confidence. Economic and social measures which enhance the authentic participation of the poor in development efforts are, we believe, the most effective means of promoting regional stability. We urge Congress to delete Title III of the Administration's Caribbean Basin proposal.

V. Conclusion

In summary, we encourage congressional passage of legislation which will provide a multi-faceted but coordinated response to the diverse needs of the Caribbean Basin Region. Economic assistance more developmentally oriented and trade incentives more beneficial to the region's countries deserve to be forthcoming. We hope that our specific recommendations will prove useful as the Congress prepares to act on the Administration's Caribbean Basin Initiative.

PREPARED STATEMENT OF ACCION INTERNATIONAL, CAMBRIDGE, MASS.

The basic goal of the President's proposed Caribbean Basin Initiative is "to expand economic opportunities for the people of the Caribbean Basin to make possible the achievement of a lasting political and social tranquillity." ACCION International, a nonprofit private voluntary organization with 21 years of economic development experience in Latin America and the Caribbean, provides this statement to offer some thoughts on how this important objective may best be achieved.

For two decades ACCION has worked with development programs that increase economic opportunities for the people in the Caribbean Basin. Thousands of jobs have been created through the provision of basic management training and small loans ($300–$2,000) to very small businesses. ACCION is only one of several hundred U.S.-based PVO's operating throughout this area. It is our experience, and a view shared by many, that this level of assistance reaches the intended beneficiaries quickly at a local level, has a lasting multiplier effect throughout the economy, and incorporates professions indigenous to the area. In short, development assistance can be administered effectively and efficiently directly to the people of the region.

Development assistance is a sound application of supply-side economics. Relatively small, judiciously-applied investments at the grass roots level generate benefits which trickle up throughout the economy—family incomes rise, small businesses are able to hire additional employees, increased consumption leads to increased economic activity, and the overall economy becomes much stronger. Several other factors warrant Congress' consideration of this type of assistance as a component of the Caribbean Basin Initiative:

(1) *No threat to U.S. labor force.*—In contrast to the proposed tax credit and free trade components of the Initiative, which have generated some fear of losing U.S. employment by shifting jobs overseas, development assistance at the grass roots level poses no threat to the U.S. work force. In fact, as incomes rise, markets for U.S. goods will in all likelihood increase.

(2) *Improvement of CBI's image.*—Trickle-up programs immediately and directly address needs felt by the majority of the Basin's population, where unemployment is over 25 percent and real incomes are declining. Development assistance might be considered a perfect complement to the government-to-government nature of the proposed Economic Support Fund since it could provide the direct, people-to-people assistance so valuable in maintaining friendly relations between countries.

(3) *Efficient use of scarce resources.*—In an environment of budget-cutting and tight economic conditions, development assistance is an especially appropriate area to which to allocate resources. Programs are highly cost-effective. In fact, we have found that the local communities end up providing the bulk of the resources, in terms of time and labor expended and local funds invested. Furthermore, development assistance has lasting benefits, since low initial investment generates a powerful impact as it continuously circulates through the economy.

These observations are offered to assist the Caribbean Basin Initiative in achieving its goal of generating economic opportunities for the people of the region. This is a vitally important objective, a crucial prerequisite for stable, prosperous economics and friendly relation with our neighbors.

PREPARED STATEMENT OF THE AMERICAN APPAREL MANUFACTURERS ASSOCIATION, ARLINGTON, VA.

The Administration is developing a new and comprehensive trade and investment policy to assist the nations of the Caribbean Basin in their economic development. The general elements of such a policy already have been outlined. This paper submits the views of the American Apparel Manufacturers Association of the CBI.

The apparel industry recognizes the political and economic importance of the area to the United States. It also has a large stake in the development and stability of the region. Traditionally, it has been of special interest to the United States, and should continue to receive this country's priority attention in its economic and political development.

Our industry supports and encourages the President's initiative regarding the nations of the Caribbean Basin.

The apparel industry can make a major contribution to the benefit of these countries. Ours is still a relatively labor intensive industry which can put a very large number of people to work quickly. Training of local management and workers can be accomplished in much shorter time-spans than in other industries, and with relatively less capital requirements. Several American companies already have operations in the area and can supply the technical, training, and marketing assistance required to initiate or enhance local production. In several ways the technical and human resources the apparel industry can provide toward development in the Caribbean will have greater long term benefits than simplistic financial aid or expenditures for large scale capital projects.

As we understand the proposed arrangement, bilateral apparel and textile trade agreements under the Multifiber Arrangement (MFA) would not be disturbed by the CBI. According to information presented to the industry's trade sector advisory committee: "All products, excluding textiles, from countries designated as beneficiaries of the arrangement would be imported free of custom duties. Consistent with our textile policy of limiting growth under large quotas from our major suppliers while providing more favorable access for small and new suppliers, we will seek to provide increased access for Caribbean exports of textiles and apparel. This increased access will be related to our ability to tighten up on the access provided to our major suppliers and the implementation of these policies will develop in parallel."

We welcome this position. Not only does it take into account established policy with respect to international trade in apparel and textiles, it also recognizes the need for a global strategy to meet the ongoing import problem confronting this industry.

In this connection, we offer the following recommendations which, with respect to the apparel industry, we consider essential to the effective implementation of any Caribbean Basin Initiative:

(1) U.S. imports of apparel from Caribbean Basin countries must be governed by the terms of the MFA. The recently negotiated protocol extending that instrument provides for differential treatment of large, more developed exporters of apparel as opposed to developing and less developed suppliers. However, it does not contemplate the growth of such imports from developing countries in such volume as to create or contribute to market disruption already present in the United States.

Recognizing the severity of the apparel/textile import problem and the economic significance of the domestic industry, President Reagan, as a candidate, wrote Senator Strom Thurmond on September 3, 1980 that:

"The MFA . . . needs to be strengthened by relating import growth from all sources to domestic market growth."

This position was firmly restated on December 11, 1981 by James A. Baker III, the President's Chief of Staff, who wrote Senator Strom Thurmond and Representative Carroll A. Campbell:

"In follow-up to our recent conversations, I want to emphasize the importance that President Reagan attaches to the textile import question. In this regard, and in view of the current situation in the domestic market, the President has instructed the U.S. negotiators in Geneva to strengthen the U.S. proposal presented in Geneva on the renewal of the MFA.

"This Administration will make every effort to satisfactorily conclude an MFA that will allow us to relate total import growth to the growth in the domestic textile and apparel market. The President has authorized me to reaffirm that we shall work to achieve that goal."

In introducing the United States protocol for extending the MFA in the GATT Textiles Committee on September 21, 1981, Chief Textile Negotiator Peter Murphy said:

"The basic situation as we see it, Mr. Chairman, is that the next few years will be difficult ones indeed for world trade in textiles. All of the conditions which led to conclusion of the original MFA are still with us, and the situation is further aggravated by basic and persistent economic problems affecting the economic growth and employment patterns of most developed countries.

"In the case of the United States, Mr. Chairman, we foresee very low rates of growth in domestic consumption of most textile products over the foreseeable future. This means, Mr. Chairman, that in the United States we are going to have to pay particular attention to the rate of growth of imports to domestic market growth, particularly in product areas which are already heavily impacted.

"We now have instances of severe market disruption in certain products in the United States. In the case of major suppliers of these products, we will not be able to offer the same rates of growth and flexibility as in the past. We do also assert, however, that we would continue in the future, as we have in the past, to agree to at least Annex B levels for those suppliers not contributing to complex market disruption.

"So where does this leave us, Mr. Chairman? We believe it [the U.S. protocol] leaves us with an MFA interpreted to meet this situation. The MFA clearly provides in paragraphs 2, 3 and 5 of Annex B for lower rates of growth and flexibility in exceptional cases and circumstances.

"The MFA in Article 6 and elsewhere makes clear the concept that more favorable treatment should be accorded new entrants and small suppliers. We believe this is a particularly important element of the MFA. We have already gone to considerable lengths to follow this percept in the past with regard to both growth and flexibility and we will make every effort to do so in the future. The degree of our ability to meet these goals with respect to certain sensitive products will depend, however, on our ability to deal successfully with imports from larger suppliers of the same products."

And in his closing statement to the Committee on December 22, 1981, Mr. Murphy said:

"We believe the provisions of this protocol will be sufficient for the United States to address its concerns, particularly with respect to participants accounting for a very large share of the U.S. import market. Any bilateral solutions must be both pragmatic and equitable."

In any Caribbean Basin Initiative, the U.S. apparel industry must insist that the growth of imports from such countries and the flexibility provided them in bilateral agreements not exceed the levels stated in Annex B of the MFA. Secondly, Annex B treatment of Caribbean Basin nations must be contingent upon limiting the growth and flexibility of large suppliers. Third, we strongly recommend that in addition to lower growth and fleixbility, every effort be made to restrain the trade of large suppliers to permit a more equitable sharing in our market by both the U.S. industry and that of Caribbean Basin countries. Finally, sensitive categories of apparel already heavily impacted by imports should not receive more favorable MFA treatment.

(2) Rules of origin must be carefully drawn and strictly enforced if Caribbean nations are to develop economically sound industries and if problems of transshipments are to be avoided. The new protocol extending the MFA provides adequate tools to meet this problem, and we recommend that an appropriate visa system (patterned after that established by the Dominican Republic) be included in any apparel/textile bilateral agreement negotiated with any of the Caribbean countries.

(3) The Subsidies Code recently concluded as part of the Tokyo Round of the Multilateral Trade Negotiations must be strictly enforced and appropriate safeguards against subsidized exports from Caribbean nations applied.

(4) As the CBI is implemented and the economic development of the Basin countries proceeds, trade must and will eventually become two-way. To capitalize on the opportunities that undoubtedly will emerge, we recommend that the Administration redouble its support of Export Trading Company legislation currently pending in the Congress. This measure will provide small and medium size companies a means to expand trade between the United States and the Caribbean Basin.

(5) Because of their relationship with the United States, we suggest that special treatment, in certain circumstances, be considered for Puerto Rico and the Virgin Islands. The economic development of these islands cannot be jeopardized as we help their neighbors. Specifically, and with particular regard to Puerto Rico, we recommend that administrative action be taken through the application of appropriate "safe-haven" rules to assure the economical operation of apparel manufacturing on the island.

Our recommendations are designed to accommodate a major new national trade and economic development initiative with long standing policy respecting the U.S. apparel and textile industry. We believe it to be fair, achievable and consistent with the President's stated objectives. We anticipate working closely with the Administration and the Congress in the development and application of the Caribbean Basin Initiative.

We have a national obligation to help foster economic and stable political development in the Basin. We also have a compelling obligation to preserve our domestic industry. Working with our government, we believe a policy that will meet all of our objectives can be achieved.

PREPARED STATEMENT OF OSWALD A. ROELS, PH. D., PRESIDENT OF WORLDWIDE PROTEIN INC., CORPUS CHRISTI, TEX.

Mr. Chairman, distinguished members of the committee, I am honored and delighted to have this opportunity to submit this testimony to the Foreign Relations Committee of the U.S. Senate concerning H.R. 5900, the bill to promote economic revitalization and facilitate expansion of economic opportunity in the Caribbean Basin Region.

I am delighted because I believe that this bill will contribute greatly to the development of a significant mariculture industry in the Caribbean Region. The climate in the region is most favorable for year round production of farmed seafood. Transportation from the region to major consumer markets in the United States is already well established. At least 40 percent of the region's population is 21 and younger. This bill should give badly needed incentives for private industry to provide new jobs, income and ancillary opportunities for a region which must be prepared for the rapidly growing work force with industries other than its traditional employers: tourism, oil refining and sugar production.

I have spent 15 years to develop this new industry for the Caribbean Basin Region. Beginning in 1967, 6 years before the enormous OPEC oil price increase and while a Professor at Columbia University, I initiated the "Artificial Upwelling" project on the island of St. Croix in the U.S. Virgin Islands. This unique mariculture system can operate in combination with commercial freshwater production (desalination) and large scale Ocean Thermal Energy Conversion (OTEC). The results of this $7 million mariculture research and development work are widely applicable in the entire Caribbean Region.

The 13-year St. Croix Research and Development project received its main support from the Sea Grant office of the U.S. Department of Commerce: approximately 60 percent of the total funding for the project came from Sea Grants and 40 percent of the support came from private foundations and industry. The objective of this project was to lead to the development of commercial mariculture farms in the Caribbean.

In brief, the results of these activities indicated on a small scale, that, utilizing a pipeline supply of deep ocean water close to shore:

The nutrient-rich water can be used to greatly stimulate algal growth and thus speed the growth of shellfish of commercial quality.

The quality of the water makes it uniquely suitable for growing a wide variety of seafood which can provide a substantial return on investments.

Prior to its use in the mariculture operation, the cold temperature of the deep sea water can be used in tropical areas for desalination, power generation, air conditioning, ice making and other cooling applications, thus contributing to the profitability of the overall operation,

More broadly, it was demonstrated that the culture of many commercially valuable marine species, was technically possible in the Caribbean area. Clams, scallops, oysters, shrimp, lobster, abalone, fish and seaweed were successfully grown in the system.

The St. Croix project has attracted worldwide attention in the press, film, radio and television. For instance, television programs about the St. Croix project were produced and shown in the United States, by ITV in Great Britain and by Channel 2 in West Germany. Press coverage has ranged from Canberra to Cape Town to China. The U.S. Information Agency has produced a film on the St. Croix project entitled "One Man and His Work: Oswald Roels".

The project has attracted wide attention in the Caribbean: in February 1980, a "Case Paper for the Establishment of a Mariculture System in the Commonwealth Caribbean" was presented to the Caribbean Development Bank at the request of Dr. J. B. Yankey, deputy director, Agriculture Division of CDB, by P. J. H. Slessor, Export Marketing Officer. It recommended the rapid expansion of mariculture systems, such as the one developed in St. Croix, to other Caribbean areas. The Caribbean Development Bank has subsequently provided funding for the study of mariculture in various areas of the Caribbean region.

Similarly, the United Nations Development Program, at the request of the government of the Commonwealth of the Bahamas, has commissioned a study entitled "Feasibility of Aquaculture in the Bahamas" which was published in February 1981.

A Caribbean Conference on Mariculture was organized in Trinidad and Tobago in May 1981, the report of which has recently been published. ("The Potential for an Aquaculture Industry in Trinidad and Tobago" published by The Institute of Marine Affairs of Trinidad and Tobago).

After the research had successfully demonstrated the technical and commercial feasibility of Mariculture in St. Croix, a corporation, Worldwide Protein Inc., was formed in the United States with private capital of $3.5 million provided by U.S. investors to develop the St. Croix project for the Caribbean Region.

Worldwide Protein Inc. plans to develop mariculture industries, initially the culture of marine shrimp, and has presently a demonstration shrimp hatchery in operation in St. Croix, U.S. Virgin Islands.

Shrimp was chosen as the first species to be produced commercially in this system because of the declining production from natural fisheries, the rising price of the commodity and the very large world market demand for this product. The world market for shrimp was estimated at US $1 billion in 1980, rising to US $4 billion (in constant 1979 dollars) by the year 2000.

The market for shrimp in the United States is very large: during 1981, shrimp landings (catches) in the United States were 339.7 million pounds, and another 223 million pounds were imported into the United States from foreign countries.

The company is establishing shrimp mariculture industries in 3 countries of the Caribbean Basin and has a Research and Development program underway for a system to grow 3 species of finfish, clams, scallops, oysters and shrimp on one of its sites.

The company will produce fresh (desalinated) water in commercial quantities utilizing the deep ocean water prior to its use in the mariculture facility. This can be done advantageously in areas where there is a need for desalinated water and the price of fresh water justifies it.

Electrical power can also be generated by using the temperature differential between the surface water and the deep water in the tropical ocean. In this way, the mariculture enterprises can share in the use and cost of the long cold water pipe to bring the deep sea water to the surface.

In those areas, where deep water is not close to shore, the company is developing more conventional mariculture systems using surface sea water or marine well water. Similar systems are presently operating in Panama, Costa Rica, Ecuador and Honduras.

THE GOAL OF THE CORPORATION

It is the goal of the corporation to establish mariculture systems throughout the Caribbean Region. Indeed, this region is eminently suitable for mariculture: very high quality, pollution-free seawater is abundantly available as is year round sunshine and high temperature, which are all requirements for tropical mariculture. It has been demonstrated in the St. Croix system that even in these regions where fresh water is scarce for conventional agriculture, mariculture utilizing seawater ponds, can produce at least 10 times more plant protein per acre per year than can the most intensely mechanized and fertilized land-based agriculture. Similarly, marine animals can be grown at very much higher densities in salt water ponds than land animals can be reared in the most technologically advanced land based animal husbandry. Of crucial importance is that these are sophisticated labor intensive industries of great attraction to young development-minded local populations.

Whereas the seventies have been without any doubt the decade of the "oil crisis" it is very likely that the eighties will be the decade of the "food crisis." The mariculture system proposed for the Caribbean by Worldwide Protein Inc. plans to produce large quantities of high quality animal protein such as clams, scallops, oysters, shrimp, abalone, finfish, etc. which will not only provide substantial employment to the people in the Caribbean Basin, but will make use of land that is now at best marginal for any use because of lack of rain, etc.

The system will also provide substantial employment and foreign exchange earnings for the Caribbean nations.

In 19 countries of the Caribbean Basin, this mariculture system can be combined with fresh water production through desalination and electrical power generation (OTEC) without using any other fuel than the abundant sunshine.

THE APPROACH OF WORLDWIDE PROTEIN INC. TO MARICULTURE IN THE CARIBBEAN BASIN COUNTRIES

I. Financial approach.—The company has formed its capital base through a private stock issue sold to individual investors. Further financing was derived from a limited partnership to undertake research and development in novel aspects of mariculture, for which Worldwide Protein Inc. is the general partner. Thus, private capital and conventional financing are used for the development of the different sites of the corporation. OPIC and private company insurance will be bought to protect the company's investment risk.

II. Technical approach.—Ideally mariculture industries should be established in the Caribbean utilizing deep ocean water wherever feasible. However, when a deep ocean water-based mariculture industry is established, it is practically essential that it be operated in conjunction with some utilization of the temperature differential between the deep water (which is very cold) and the surface water. Indeed, the cold temperature of the deep water is not suitable for growth of tropical species of marine organisms. If the deep water can be warmed in heat exchangers, such as those of a desalination plant or an OTEC plant, then the very high quality of the deep water is particularly useful in mariculture.

More conventional mariculture systems can be developed in most areas of the Caribbean basin where good quality marine surface water or marine well water and large areas of flat land, close to sea level for pond construction are available.

PRESENT STATUS OF DEVELOPMENT OF THE PROGRAM OF WORLDWIDE PROTEIN INC.

1. U.S. Virgin Islands.—The company has a penaeid shrimp hatchery in operation on St. Croix in the U.S. Virgin Islands and has sold its first post larval shrimp from that hatchery in December of 1981.

The company has acquired an option on 600 acres of land on the west shore of St. Croix where it plans to construct a full scale commercial size penaeid shrimp hatchery. This hatchery should be able to provide many areas in the Caribbean with seed shrimp to contribute significantly to the development of a mariculture industry, particularly in the eastern and northern island nations of the Caribbean Basin. The governmental regulatory process is delaying the rapid development of this industry on St. Croix: the company needs many government permits to construct this hatchery on St. Croix, where the same regulatory agencies as those on the mainland of the United States exist and slow down the development of this new industry.

2. The Commonwealth of the Bahamas.—The company has an option to buy 25,000 acres of land, existing ponds and a fairly complete infrastructure for the development of a large scale mariculture system on Long Island, Bahamas.

Since there is no bilateral agreement between the United States and the government of the Bahamas, the company cannot obtain OPIC insurance for its investment in the Bahamas. The company hopes that the legislation this committee is presently considering to facilitate expansion of economic opportunity in the Caribbean Basin, will make it easier to obtain insurance for its investment in the Bahamas on reasonable terms.

The company is looking for partial financing of this project from the development banks active in the Caribbean countries. Considerable guidance has been obtained from the "Caribbean Project Development Facility" of the International Finance Corporation (IFC) in Washington, D.C.

3. Panama.—Worldwide Protein Inc. has entered into a joint venture agreement with a Panamanian group to develop 5,000 acres of land into shrimp ponds and to construct a large scale shrimp hatchery. OPIC insurance is available for the company's investment in Panama.

CONCLUSIONS AND RECOMMENDATIONS TO THE COMMITTEE

I would like to recommend that the following provisions be included in the bill, to facilitate the establishment of a mariculture industry in the Caribbean Region:

1. The conclusion of bilateral investment treaties between the United States and each of the countries of the Caribbean Basin Region.
2. The extension of concessional aid to investment in mariculture in the Caribbean Basin by United States corporations.
3. The provision of loan guarantee or other incentives to commercial banks on loans to mariculture industries for land purchases and working capital.

Most mariculture operations in the Caribbean Basin are and will continue to be start-up companies. Their major financing requirements are for land, fixed assets, and working capital.

Loan guarantees and investment insurance will help the mariculture industries face the costly delays inherent in negotiations to purchase sites and to obtain governmental approvals to operate mariculture industries.

Fixed assets investments in mariculture can be encouraged by including these proposals in this bill:

1. A 5-year legislative extension of the investment tax credit for up to 10 percent of the amount of fixed asset investment in the Caribbean Basin countries by U.S. companies or individuals.
2. The extension of the accelerated cost recovery system to U.S. companies operating in all countries of the Caribbean.
3. The extension of investment tax credit and accelerated cost recovery to property owned or used by corporations engaged in business in Puerto Rico and the U.S. Virgin Islands.

4. The lowering to 10 percent from 30 percent of the withholding tax rate on dividends, interest, and other passive income flowing from the U.S. Virgin Islands to the United States.

The investment tax credit and accelerated depreciation are, however, not a benefit to start-up companies which normally show no profit in the early years.

Mariculture companies badly need working capital to make their companies profitable after large initial fixed asset and other start-up costs.

Mr. Chairman, distinguished members of the Committee, as President of a small corporation with present activities in three countries of the Caribbean Basin region, I strongly support the Caribbean Economic Recovery Act and stand ready to work with the Administration and the Committees of the U.S. Congress to achieve the objectives of this act and thus to enable us to better implement through private initiative and financing the economic expansion of the entire Caribbean Basin region through utilizing its greatest natural resources which are its people, the sun and the sea.

Thank you, Mr. Chairman, for this opportunity to submit this testimony.

Prepared Statement of Leather Products Coalition

CARIBBEAN BASIN INITIATIVE (CBI)

The following organizations are deeply concerned over the one-way free trade aspects of the CBI:

Amalgamated Clothing and Textile Workers Union, AFL–CIO.
Footwear Industries of America, Inc.
International Leather Goods, Plastics, and Novelty Workers' Union, AFL–CIO.
Luggage and Leather Goods Manufacturers of America, Inc.
National Handbag Association.
United Food and Commercial Workers Union, AFL–CIO.
Work Glove Manufacturers Association.

All of the leather-related industries represented by these organizations share a common problem: we are already adversely impacted by imports. In some cases, Caribbean countries are already substantial suppliers of competing products. They have the ability with their large pool of cheap labor to increase their exports to us even further.

These industries do not question the Administration's commitment to revitalize the economies of the Caribbean Basin. We understand the political imperative of bringing about political and social stability in countries of the region.

But we believe it is manifestly unfair to have our firms and workers pay for this national policy initiative.

We seek an exclusion from the free trade provisions of the CBI as has already been decided for textiles and apparel, which are similarly labor-intensive, import-impacted industries.

We take this position for the following important reasons:

Import penetration in the U.S. market for leather-related industries has been growing substantially, as shown in the following:

	Percent
Handbags:	
1967	29.2
1977	62.9
1980	74.5
Footwear (nonrubber):	
1967	17.7
1977	47.1
1980	48.1
Leather apparel:	
1972	31.0
1977	50.3
1980	47.8
Luggage:	
1972	11.6
1977	17.8
1980	28.6
Leather Work Gloves:	
1972	23.0
1977	36.8
1979	51.1

Personal Leather Goods:	*Percent*
1972	7.3
1977	10.8
1980	12.9

Further import growth in 1981 indicates that import penetration was even higher last year.

Imports of these products from Caribbean countries are substantial and growing, indicating that these countries do not need duty-free entry to penetrate the U.S. market. The following shows recent trends in U.S. imports of leather-related products from the Caribbean:

[In thousands of dollars]

	Calendar year—	
	1980	1981
Handbags	12,946	14,000
Footwear (nonrubber)	6,572	10,431
Leather apparel	1,130	1,637
Luggage	1,588	1,776
Leather, plastic, and rubber work gloves	2,297	2,606
Personal leather goods	1,257	2,816

NOTE.—These data exclude imports from Cuba, Venezuela, Mexico, and Colombia.

Neither the firms nor workers in these industries should bear the burden of this new policy initiative. These industries are labor-intensive. About 250,000 workers are employed in these industries in the United States. They are mostly semi-skilled, generally women, with minorities (Blacks, Hispanics) making up a large part of the work force. Indeed, a large portion of the work force in these industries came to the United States from the Caribbean. These industries provide entry-level jobs and generally employ people under 25 or over 50, the hardest groups to employ, suffering high unemployment rates.

The import-sensitivity of the leather-related industries has been recognized by Congress and the Executive Branch. Nonrubber footwear has been excluded from GSP by the Trade Act of 1974. The ITC found that imports were a substantial cause of the injury suffered by the leather apparel and nonrubber footwear industries. Most leather-related products have been found to be import-sensitive in the context of GSP.

The CBI flies in the face of all trade legislation in recent years. We understand that imports which enter duty-free under the Generalized system of Preferences already account for 87 percent of imports from the Caribbean. Clearly, by allowing products across the board to enter duty-free (except for textiles and apparel), a decision has been made to discard the concept of import-sensitivity and to go to zero duty for those items which are import-sensitive.

Because of their import-sensitivity, all of these products retain a significant degree of tariff protection today, as shown in the following:

Handbags	6.5 percent to 20 percent.
Footwear (nonrubber)	Free to 20 percent (trade weighted average of 10 percent).
Leather apparel	6 percent.
Luggage	6.5 percent to 20 percent.
Work gloves	4.5 percent to 27.1 percent.
Personal leather goods	6.1 percent to 20 percent.
Rubber footwear	20 percent to 67 percent.

These industries are easy to enter. Capital investment is relatively low. They are highly labor intensive. With textile and apparel, they are the first manufacturing industries which LDCs enter. The record is quite ample to show how imports of these products into the United States increase substantially in a short period of time. A prime example of this phenomenon is found in the case of leather wearing apparel which received duty-free treatment under the Generalized System of Preferences for 3 years, from 1976 to 1978. The following shows how imports from developing countries grew when leather apparel was accorded duty-free treatment and the duty dropped from 6 percent to zero:

[In millions of dollars]

	1975	1976	1977	1978
Korea	25.3	65.9	79.1	114.3
Taiwan	22.5	29.9	27.6	37.9
Argentina	2.9	9.7	18.3	43.7
Uruguay	8.5	17.8	24.2	34.2

Increased imports of leather-related products from the Caribbean under a one-way free trade policy will not replace imports from other countries but will be at the expense of U.S. firms and their workers as domestic production falls. Over the years, many new LDC supplying countries have entered the U.S. market in the leather products sector without any noticeable displacement, if any, of older LDC suppliers.

The safeguard measures that the Administration will propose will not work for this sector. Imports increase rapidly before action can be taken, no matter how good the intentions may be on the part of the Executive Branch. Certainly the record of the "escape clause" in the United States, on which the CBI safeguard measure will be based, leaves serious doubt as to how effective this will be under a CBI. Out of the 45 investigations completed to date pursuant to Section 201 of the Trade Act of 1974, only 9 have resulted in import relief. Action taken by the President to terminate relief on nonrubber footwear as of June 30, 1981 is a clear indication of what might lie ahead for leather-related industries. By law, the nonrubber footwear industry cannot even petition again for "escape clause" relief until July 1, 1983 at the earliest; therefore, the proposed CBI legislation provides no safeguards for this industry until then. Furthermore, the Administration's trade policy statement of July 8, 1981 provides no comfort and indeed is a matter of serious concern with regard to safeguards for industries such as ours, even if we were to invoke the "escape clause."

The free-trade aspects of the CBI are inconsistent with the Administration's concerns for small businesses. On March 1 the President submitted to Congress a report on small business. He correctly pointed out that over half of the U.S. labor force is employed by small businesses; that most small firms are labor intensive; that small businesses provide most, by far, of the new jobs in the economy; and that "America needs small business formation and growth." Most firms in the leather products industries are small businesses. Yet, the duty-free provisions of the CBI will result in increased imports to the serious detriment of firms and workers in these industries. The Administration cannot permit duty-free entry from the Caribbean of leather products and yet foster these small businesses.

With substantially growing import penetration, the leather-related industries are already in a state of siege. We have suffered from plant closings and lost jobs due to imports. Do not exacerbate our problems in the name of a national policy initiative. Do not cause more of our plants to close. Do not make our workers pay for this new policy.

PREPARED STATEMENT OF ROBERT B. WASHINGTON, JR., ON BEHALF OF THE GOVERNMENT OF ANTIGUA AND BARBUDA

I. INTRODUCTION

I am Robert B. Washington, Jr. of the firm Finley, Kumble, Wagner, Heine, Underberg & Casey. In my capacity as counsel for the Government of Antigua and Barbuda (hereinafter referred to as either "Antigua" or "Antigua and Barbuda"), I appreciate the opportunity to submit for the record these remarks, representing the views of Antigua with respect to the recently announced Caribbean Basin Initiative ("CBI").

As a member of the Eastern Caribbean community, Antigua has a vital interest in the eventual enactment of the Caribbean Basin Economic Recovery Act and is optimistic that the comments appearing herein will assist the Members of Congress in their consideration of the proposed legislation.

As proposed, the CBI package envisions a three component effort designed to enhance the economic viability of the Caribbean Basin for the benefit of the countries of the region and the United States. These three components—trade, investment, and concessional aid—are blended together to produce an economic stimulant relying upon cooperative initiatives of the United States Government, the Caribbean Basin countries, and U.S. investors. The acknowledged centerpiece of the CBI is the one-way free trade treatment accorded to most products imported into the United States from the Caribbean Basin. This step is bolstered by proposed tax incentives directed to the benefit of U.S. firms providing new investments in plants and equipment in Caribbean Basin countries. The final major component of the CBI is a proposed supplemental appropriation of $350 million to assist the Caribbean Basin countries to address immediate balance of payments requirements.

The combination of these integrated and mutually-reinforcing measures is intended to produce both short-term and long-term benefits to all participants in the CBI. In conjunction with the instrumental roles of the U.S. Government and U.S. investors in providing development capital, each of the Caribbean countries will have the pivotal responsibility of insuring that investment capital is applied in a manner most responsive to their particular needs. Thus, critical to the successful implementation of the CBI is the formulation by each Caribbean country of a coherent set of priorities and self-help measures which will ensure the long-term success of the program. President Reagan's statement of March 17, 1982 transmitting the CBI legislative package to Congress strongly emphasizes this principle of self-help as a fundamental predicate to the success of the program.

II. ANTIGUA'S POSITION ON THE CBI

Antigua, as a newly independent member of the Eastern Caribbean, has strongly and publicly endorsed the overall scheme of the CBI, while advocating a stronger economic assistance commitment under the program to the Eastern Caribbean states. The conceptual approach of combining trade, investment, and economic assistance into a cohesive package for the economic development of the Caribbean Basin includes the ingredients necessary for the Caribbean countries to build stronger and more productive economies. However, for each particular country, it is essential that these ingredients be blended in the proper proportions so that the benefits of the CBI can be individually tailored to meet the challenges confronting the varied and diverse economies of the region.

While Antigua endorses the basic structure of the CBI package, it emphasizes the necessity for increasing the economic assistance allocated to Antigua and other Eastern Caribbean countries in order to make the program more responsive to their critical needs for infrastructure development. Without an increase in economic assistance, particularly in the form of bilateral aid, the CBI will fail to achieve its expressed objectives with respect to the Eastern Caribbean countries. Moreover, the development of those countries will be greatly overshadowed by that of their neighbors who, by virtue of larger allocations of economic assistance, will be able to develop an infrastructure capable of attracting the trade and investment opportunities essential to the success of the CBI.

In addition, Antigua would like to emphasize the importance of the U.S. Government providing economic assistance on a bilateral basis in conjunction with its multilateral assistance. The latter represents the only form of assistance previously provided to Antigua and has proven to be susceptible to increasing administrative costs and delays.

III. ANTIGUA'S RELATIONSHIP WITH THE UNITED STATES

In addition to the obvious economic incentives to be derived from participation in the CBI program, Antigua welcomes the opportunity to strengthen its relationship with the United States through a mutually beneficial venture. This relationship historically has been a strong one and is based on a number of ongoing joint efforts undertaken by the United States and Antigua.

Since 1941, the United States has maintained military bases on Antigua pursuant to lease agreements, under which for many years Antigua received no compensation. More recently, Antigua and the United States have agreed upon the establishment of a Voice of America station to be located on Antigua. These joint efforts reflect Antigua's desire to maintain a strong and binding relationship with the United States over the past several decades. They also evidence a mutual commitment to preserve the security and stability of the Caribbean Basin.

In recognition of this long-standing relationship with the United States, many Americans annually vacation in Antigua, utilizing the several hotel lodgings available or establishing their own vacation residences on the islands. Similarly, U.S. investors have been warmly received, and Antigua is pleased with the opportunity to increase the presence of U.S. investors through participation in the CBI.

In light of the long-term relationship which Antigua has enjoyed with the United States, Antigua is optimistic that the CBI will not place it at a competitive disadvantage with its Caribbean Basin neighbors. To so do, would ignore the active role which Antigua has played over several decades in establishing friendly relations with the United States. Antigua would hope that the CBI legislation would provide the means by which it could strengthen its relationship with the U.S. Government and business community as well as enhance its capability to compete in the international marketplace.

IV. SELF-HELP MEASURES UNDERTAKEN BY ANTIGUA

As a willing participant in the CBI and one with a historically strong relationship with the United States, Antigua has already initiated the self-help measures alluded to by President Reagan. In 1980, the Government of Antigua embarked on its Five-Year Socio-Economic Development Plan designed to provide the framework for improving the economic stature of the country. This bold initiative on the part of Antigua would be complemented by the investment, trade, and financial assistance components of the CBI. However, as a review of the major elements of the Five-Year-Plan and the problems it seeks to address will reveal, the CBI needs to be adjusted to provide more immediate short-term assistance in order to build the proper foundation for the longer term benefits of the program.

As another indication of Antigua's eagerness to initiate programs to solve some of its economic problems, an investment promotion mission will be sent to the United States this fall. This mission will travel to several major U.S. cities in an effort to attract U.S. investors to Antigua.

In addition, Antigua has already begun discussions with the United States on negotiating a bilateral investment treaty with negotiations scheduled to begin this May. This treaty would greatly improve Antigua's ability to attract U.S. investors to the region.

Since Antigua declared independence in November 1981, it has moved decisively through the measures just mentioned to take control of its economy and make the improvements necessary to attract outside investment. With some initial assistance from the United States, Antigua soon hopes to achieve economic self-reliance.

V. ANTIGUA'S ECONOMIC SITUATION

Antigua, although small in size and population, is faced with many of the same challenges as the larger countries of the Caribbean. Thus, with a work force growing at a rate nearly double the growth rate of the whole population, one of Antigua's most serious problems is providing the jobs required to accommodate its ever increasing employment needs. From an investor's perspective, this employment situation may represent a positive factor in that it ensures that a sufficient labor force will be available to support new business ventures on the island. For Antigua and other Caribbean nations, high unemployment signals potential domestic problems of both social and political dimensions.

Another equally perplexing challenge to Antigua is the lack of a sufficiently developed infrastructure necessary to attract the additional investment opportunities referred to in the CBI. For instance, recent increases in the number of tourists visiting the island and fluctuating climate conditions have placed a strain on the water supply system; an expansion of water supply capacity is therefore required to handle domestic, tourist, industrial, and agricultural requirements. Similarly, the increasing number of residents and visitors in Antigua and Barbuda have strained the existing transportation and communication facilities. Concomitantly, additional housing, including expansion of existing hotels, must be provided in the immediate future to adequately house residents and tourists. Finally, in response to anticipated commitments by U.S. investors, additional warehouses and other industrial facilities will have to be constructed.

Agricultural demands constitute another major challenge to Antigua and Barbuda and result in significant annual expenditures for imported food. This problem had its historic basis in former colonial days when the emphasis was on a one-crop economy. Antigua has both the labor and the land required to sustain an effort towards self-sufficiency, but lacks the capital to assure a well-balanced approach to compensate for the former one-crop policy.

The high cost of energy, particularly with respect to refined petroleum products, is a worldwide problem and one with which the United States is intimately familiar. The escalating costs for such products has an even greater impact on smaller economies since they lack the financial base capable of absorbing such costs. Consequently, Antigua's rising fuel costs and a resulting shortage of electricity have had a devastating effect on its entire economy diminishing available capital for development needs.

VI. ANTIGUA'S FIVE-YEAR SOCIO-ECONOMIC DEVELOPMENT PLAN

Notwithstanding the broad dimensions of the various problems facing Antigua, the Government has devised a comprehensive program embodied in its Five-Year Socio-Economic Development Plan designed to improve the economic basis of the country. The Five-Year Plan envisions realistic goals responsive to the problems discussed above and reflects the self-help initiatives fundamental to the successful implementation of the CBI.

With respect to unemployment, the sundry projects and proposals under the Five-Year Plan will create a vast number of jobs for Antigua's work force. The infusion of additional projects initiated and funded by U.S. investors would further alleviate the employment situation in Antigua.

In response to its agricultural requirements, Antigua proposes to establish several small scale industries including a dairy production unit and a company involved in the harvesting, processing, and marketing of fish and fish products. The dairy production unit will also result in an increase in beef production. These projects are to be designed primarily for the production of foods for local consumption and will result in a significant reduction in the importation of these products. In order to facilitate the transportation of its agricultural products to marketing facilities, Antigua plans to improve and increase existing roads.

Water supply capabilities will be enhanced by a mini-dam program for irrigation of crops and improvements in watershed conservation practices. Studies are underway to investigate desalinization and water purification techniques. Moreover, a comprehensive water conservation program has been initiated to reduce overall water consumption by residential and industrial consumers.

A similar conservation program is underway to reduce residential and industrial consumption of refined petroleum products. This program is supplemented by ongoing studies exploring alternative sources of energy available to Antigua, particularly the possibility of solar and wind projects.

In addition to the projects mentioned above, Antigua has an ongoing effort to maintain and improve transportation and communication facilities for both residential and industrial users. The Government also has a policy of providing factory shells for investors, charging fees only for the provision of utilities. With nearly a dozen such factory shells already completed, Antigua hopes to build three units per year under its Five-Year Plan.

Antigua is also committed under the Five-Year Plan to augmenting tourist arrivals by 10 percent per year. In order to meet this objective, hotel expansion and construction projects have already begun.

VII. ANTIGUA'S RECOMMENDATIONS FOR IMPROVING THE EFFECTIVENESS OF THE CBI

The measures broadly outlined above constitute a sampling of those undertaken by Antigua in the direction of advancing to full economic self-reliance. It is clear that significant capital investment will be urgently needed to complete the proposed projects set forth in Antigua's Five-Year Plan. In this regard and in consideration of the challenges confronting Antigua and other less developed countries of the Caribbean Basin, the following recommendations are made with respect to the CBI legislation as currently proposed.

As is evident from Antigua's current economic posture, the proposed supplemental appropriation of $350 million represents the most immediate form of assistance available under the CBI legislation. Unfortunately, President Reagan has dedicated only $10 million to the entire Eastern Caribbean and without any indication of its intended allocation among the several countries of the region. In light of the extensive infrastructure development needed by Antigua in order to take advantage of the trade and investment portions of the CBI, a $10 million appropriation for Antigua alone would be very inadequate. Thus, whatever may be the ultimate allocation of the $10 million aid package proposed for the Eastern Caribbean countries, it will be insufficient to provide the assistance required by Antigua and the other Eastern Caribbean countries.

Furthermore, under the fiscal year 1982 budget, the Eastern Caribbean was allocated $34 million out of a total Caribbean budget of $474 million. The $10 million supplemental allocation to the Eastern Caribbean is both inadequate and not in proportion to the allocation under the regular 1982 budget. An even worse allocation to the region is projected for the fiscal year 1983 budget with the Eastern Caribbean receiving $30 million out of a total $600 million request for the entire Caribbean Basin. The capital requirements of the Eastern Caribbean deserve greater consideration than is reflected in the supplemental and 1983 budget requests proposed by the Reagan administration.

The aid figures for the Eastern Caribbean are also inadequate in view of the fact that in 1981, the total U.S. exports to the Eastern Caribbean amounted to $282 million, while the total exports from the Eastern Caribbean to the United States amounted to only $37 million. This significant trade imbalance between the United States and the Eastern Caribbean provides ample justification for increasing U.S. assistance.

It is also essential that greater emphasis be made on directing future economic assistance on a bilateral basis to the individual countries of the Eastern Caribbean. Bilateral assistance represents a more direct mechanism for addressing the specific financial needs of a particular country and at lower administrative cost than multilateral aid. Antigua would need and welcome a modest A.I.D. presence to develop and implement the various projects for which Antigua seeks bilateral economic assistance.

Antigua, in making the request for additional aid in the CBI package, is fully cognizant of the frequently-stated objection that the small populations of the Eastern Caribbean countries do not warrant extensive aid programs. However, it should be noted that regardless of the size of a country's population or geographical territory, all of the Caribbean nations have certain fundamental infrastructure needs which must be met to engage in international trade and commerce. The incremental aid for the development of Antigua's infrastructure would, in any event, benefit future U.S. investors who establish business operations on the island, and ultimately result in Antigua becoming a stronger trading partner with the United States and the other countries of the Caribbean Basin.

Thus, bolstering the financial assistance component of the CBI for the Eastern Caribbean countries, and emphasizing the bilateral assistance to the region, will enable these countries to take advantage of the longer term benefits derived from the trade and investment components of the CBI package. Moreover, the increased aid will permit Antigua and its neighbors to complete the development programs which they have drafted to address their individual needs, the success of which will be fundamental to the security and stability of their governments and to the entire Caribbean Basin.

CONCLUSION

Antigua strongly endorses the CBI package proposed by President Reagan and is convinced that it offers the means by which countries of the Caribbean Basin can achieve economic self-reliance. The trade, investment, and economic assistance components of the program may be successfully adapted by any participating country of the Caribbean Basin, regardless of its current economic situation. However, those components must be properly blended in each instance to ensure their successful implementation in each of the participating countries and to maximize the potential benefits available to the region.

In the case of Antigua, and other less developed countries of the Eastern Caribbean, a minor adjustment in the overall economic assistance portion of the CBI package would greatly enhance the effectiveness of the program from their perspective. While a failure to increase the supplemental appropriation allocated to Antigua could undermine its infrastructure development plan and thereby prevent the country from receiving the investment and trade benefits offered by the CBI. Moreover, the current economic gap among the various Caribbean Basin countries would widen at a prolific rate as the more developed countries of the region, with less need for economic assistance, capitalize on the CBI trade and investment incentives. As stated previously, Antigua strongly urges the use of bilateral aid as the most direct and cost-effective means of providing economic assistance. While multilateral assistance has been helpful in the past, Antigua hopes that future assistance will be a mixture of the two.

With the modifications suggested above, Antigua will be able to work with the United States to strengthen an already healthy relationship and simultaneously build a basis for a more productive and functional economy. To meet these objectives, Antigua hopes that Congress will move expeditiously to consider the passage of the proposed CBI legislation in recognition of the vital impact that it will have on the development of the entire Caribbean Basin.

○